

ARBUTHNOT BANKING GROUP PLC

Application of UK Corporate Governance Code

Introduction and Overview

Arbuthnot Banking Group has a strong and effective corporate governance framework. The Board endorses the principles of openness, integrity and accountability which underlie good governance and takes into account the provisions of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (“the FRC Code”), in so far as they are considered applicable to and appropriate for it, given its size and circumstances, and the role and overall shareholding of its majority shareholder. The Group’s banking subsidiary, Arbuthnot Latham & Co., Limited, is authorised by the Prudential Regulatory Authority (the “PRA”) and regulated by the Financial Conduct Authority (“FCA”) and by the PRA. Four of its subsidiaries, Asset Alliance Limited, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited, are regulated by the FCA. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such a business.

The Board has decided to report against the FRC Code. This decision was made in light of the requirement in the AIM Rules for Companies that AIM listed companies state which corporate governance code they have decided to apply, how the company complies with that code, and where it departs from its chosen code an explanation of the reasons for doing so. The Rules of the AQSE Growth Market also require the Company to adopt, as far as possible, the principles and standards set down in a recognised UK corporate governance code. This information is published on the Company’s website and the Company reviews it each year as part of its annual reporting cycle. This section of the Annual Report summarises how the Company applies the FRC Code and in broad terms how it has complied with its provisions throughout the year, giving explanations where it has chosen not to do so.

Leadership and Purpose

The Company is led by the Board which comprises seven members: Sir Henry Angest, the executive Chairman; two other executive directors, Andrew Salmon and James Cobb; and four independent non-executive directors, Nigel Boardman, Ian Dewar, Sir Christopher Meyer and Sir Alan Yarrow. This means that 67% of the Board, excluding the Chairman, comprises non-executive directors whom the Board considers to be independent.

The Board sets the long-term focus and customer-oriented culture of the Group. The responsibilities of Sir Henry Angest as Chairman include leading the Board, ensuring its effectiveness in all aspects of its role, ensuring effective communication with shareholders, setting the Board’s agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board.

The Board has for many years led a company which focuses on sustainability and growth over the longer-term with a culture to match. Investment in resources has been strong and has continued where and as appropriate (including during the COVID-19 pandemic for example), with the focus on the benefit this will bring to bear for stakeholders over time. The aim continues to be for a culture of openness among the workforce which combines with the prudent and effective technological and individual controls in place across the business to ensure strong risk management in the Company’s continued long-term success.

The Group’s cultural values are reflected in a brand values document linking the Arbuthnot Principles to the Group’s culture as a way of communicating culture across the business. These cultural Principles are encapsulated in five Group values, themselves embedded into day-to-day activities. These are integrity, respect, empowerment, energy and drive, and collaboration.

The Board

A number of key decisions are reserved for the Board. The Schedule of Matters Reserved to the Board is reviewed annually and is published on the Company’s website at http://www.arbuthnotgroup.com/corporate_governance.html. The Board met regularly throughout the year, including until September 2021 via video conference. It held seven scheduled meetings, five of which were held jointly with the Board of Arbuthnot Latham with the other two being held to approve the Annual and Interim Reports. It also held a separate strategy meeting. Substantive agenda items have briefing papers, which are circulated in a timely manner before each meeting. The Board ensures that it is supplied with all the information that it requires and requests in a form and of a quality to fulfil its duties. Since February 2021, the Directors have participated in the regular Board meetings of Arbuthnot Latham as attendees.

The Board was kept fully informed of the arrangements made by management to run the business remotely during the pandemic. The Chairman and Chief Executive continued to be kept fully informed of all material matters through

regular discussions with the Chief Operating Officer and other members of senior management during the period of remote working to September 2021 which resumed from mid-December to end of January 2022.

In addition to overseeing the management of the Group, the Board has determined certain items which are reserved for decision by itself. These matters include approval of the Group's long-term objectives and commercial strategy, ensuring a sound system of internal control, risk management strategy, approval of major investments, acquisitions and disposals, any changes to the capital structure and the overall review of corporate governance.

The Company Secretary is responsible for ensuring that the Board processes and procedures are appropriately followed and support effective decision making. All directors have access to the Company Secretary's advice and services. There is an agreed procedure for directors to obtain independent professional advice in the course of their duties, if necessary, at the Company's expense.

New directors receive induction training upon joining the Board, with individual listed company training provided by the Company's AIM Nominated Adviser and AQSE Corporate Adviser. Regulatory and compliance training is provided by the Group Head of Compliance or by an external lawyers and accountants. Risk management training is provided, including that in relation to the ICAAP and ILAAP, by the Arbuthnot Latham Chief Risk Officer with an overview of credit and its associated risks and mitigation by the Arbuthnot Latham Chief Credit Officer.

Board Evaluation

The annual Board Effectiveness Review was conducted internally. The 2021 evaluation took the form of a confidential questionnaire which assessed the performance of the Board and its Committees. The questions were set to explore the themes developed over recent years, including Board effectiveness, Board composition, Board dynamics, alignment of the Board and executive team, interaction with major shareholders, induction, performance and training, Board Committees and the Secretariat. The feedback was collated by the Company Secretary and discussed by the Board in November 2021 and proposed actions arising were considered in February 2022. The responses were positive, confirming that the Board was of the view that it receives the correct level of insight into and oversight of the Company, both directly to it and in terms of management information and oral updates provided during meetings. Directors also agreed that the Arbuthnot culture set out in the Arbuthnot Principles and Values manifests itself at Board level and in the external view of the Group as a whole. The 2021 evaluation was augmented by a question, seeking responses to the extent to which the Board understands the Group's obligations in relation to ESG matters (including for these purposes diversity, inclusion and climate change) and ensures that its discussions take these factors into account, together with statutory directors' duties. It was confirmed that there is a sensible and appropriate approach towards this developing area which will require future Board focus.

Overview of Compliance with the FRC Code, together with Exceptions

The Board focuses not only on the provisions of the Code but its principles, ensuring as follows:

- The Company's purpose, values and strategy as a prudently managed organisation align with its culture, with a focus on fairness and long-term shareholder returns.
- The Board has an appropriate combination of executive and non-executive directors, who have both requisite knowledge and understanding of the business and the time to commit to their specific roles.
- The Board comprises directors with the necessary combination of skills to ensure the effective discharge of its obligations, with an annual evaluation of the capability and effectiveness of each director as well as the Board as a composite whole; appropriate succession plans are also in place and reviewed annually, or more frequently if appropriate.
- The Board and Audit Committee monitor the procedures in place to ensure the independence and effectiveness of both external and internal auditors, and the risk governance framework of the Company, with all material matters highlighted to the relevant forum (Board/Committee).
- Remuneration policies and practices are designed to support strategy and promote long-term sustainable success, with a Remuneration Committee in place to oversee director and senior management pay.

In respect of the Code's specific provisions, an annual review is carried out, comparing the Company's governance arrangements and practices against them. Any divergences are noted, with relevant rationale considered carefully to determine whether it is appropriate. Consideration is also given to guidance issued, which may require a review of the relevant reasoning intra-year.

In line with the FRC's Guidance on Board Effectiveness, the Board additionally takes into account its suggestions of good practice when applying the Code focusing on the five key principles specified in the Code.

Where the Company's governance does not completely align with the Code, it is generally as a result of the role of its overall majority shareholder, itself adding a level of protection to long-term shareholder interests, and it has had no negative impact on the Company.

All divergences from the Code, with an explanation of the reasons for doing so are set out below:

Provision 5 – The Board has regard to the interests of all its key stakeholders in its decision making. The Company has fewer than 20 employees, all of whom have direct access to Board members. As such, it has not been deemed necessary to appoint an employee representative to the Board, nor a formal workforce advisory panel, nor a designated non-executive Director. One of the non-executive directors of Arbuthnot Latham and its Whistleblowing Champion, has been designated by its board as the director to engage with the Group’s workforce.

Provision 9 - Sir Henry Angest carries out the role of Chairman and Chief Executive, given his long-term interest as majority shareholder, itself aligning with the interests of other shareholders. The Group Chief Operating Officer and the Group Finance Director provide a strong, independent counterbalance, ensuring challenge and independence from a business perspective, against the stakeholder focus of the Chairman carrying out his Chairman’s role. The Company follows the US model that is very successful in ensuring commercial success with strong corporate governance and stakeholder awareness, having a shared Chairman and CEO, with a separate, empowered, Chief Operating Officer.

Provision 10 – The Board considers Sir Christopher Meyer to be independent, notwithstanding his serving more than nine years, since his views and any challenge to executive management remain firmly independent. Sir Christopher will be stepping down from the Board at the conclusion of the AGM on 25 May 2022.

Provision 12 – The Board has not appointed a Senior Independent Director, as major shareholders talk openly with the Chairman, the Group Chief Operating Officer and the Group Finance Director on request.

Provision 14 – Attendance at meetings is not reported since, should a Director be unable to attend a meeting, that Director receives relevant papers in the normal manner and relays any comments in advance of the meeting to the Chairman. The same process applies in respect of the Board Committees.

Provision 18 – For the purposes of stability and continuity, the Company continues to offer Directors for re-election on a three-year rolling basis in accordance with the Company’s Articles of Association and company law. The Directors seeking re-election at the 2021 AGM are Sir Henry Angest and Andrew Salmon who have served on the Board for 36 and 18 years respectively. The contributions of Sir Henry Angest, who beneficially owns more than 50% of the issued share capital, and of Andrew Salmon, an executive director, have been invaluable in the successful development of the Company. Accordingly, the Board fully supports the resolutions for their reappointment.

Provision 19 - Sir Henry Angest’s role as Chairman has extended over nine years and is expected to continue for the foreseeable future, given his key role as majority shareholder both in protecting the stability of his and other shareholder interests and in overseeing a balanced and risk-managed approach to growing the business with a view to the longer-term. For this reason he is surrounded by a strong team of non-executives who ensure the protection of all shareholders’ interests.

Provision 23 – The Nomination Committee takes into account the provisions of the Board Diversity Policy and in terms of succession planning the Equality and Diversity Policy which promotes equality of opportunity for all staff. Further information on diversity and inclusion is given in the Sustainability Report within the Company’s 2021 Annual Report & Accounts, though the gender balance of senior management and their direct reports has not been given.

Provision 32 – Sir Henry Angest is Chairman of the Remuneration Committee, as is appropriate in the context of his majority shareholding.

Shareholder Communications

The majority shareholder is Sir Henry Angest, Chairman and Chief Executive. The Company maintains communications with its major external shareholders via one to one meetings, as appropriate, by the Chairman and Chief Executive, the Group Chief Operating Officer or the Group Finance Director on governance and other matters. When practicable it also makes use of the AGM to communicate with shareholders in person. The Company aims to present a balanced and understandable assessment in all its reports to shareholders, its regulators, other stakeholders and the wider public. Key announcements and other information can be found at www.arbuthnotgroup.com.

Board Committees

The Board has Audit, Nomination, Remuneration, Donations and Policy Committees, each with formally delegated duties and responsibilities and with written terms of reference, which require consideration of the committee’s effectiveness. The Board keeps the governance arrangements under review. Further information in relation to these

committees is set out below and the terms of reference of the Audit, Nomination and Remuneration Committees are published on the Company's website. The Board maintains direct responsibility for issues of Risk without the need for its own Risk Committee, since responsibility for large lending proposals is a direct responsibility of its subsidiary, Arbuthnot Latham. Additionally the Chairman of the Arbuthnot Latham Risk Committee reports to the ABG Board at its regular meetings on the activities of that Committee which is responsible for monitoring the status of the Arbuthnot Latham group against its principal risks.

Audit Committee

Membership and meetings

Membership of the Audit Committee comprises Ian Dewar (as Chairman), Sir Christopher Meyer and Sir Alan Yarrow. 100% of the Committee's membership therefore comprises non-executive Directors independent in the view of the Board. Mr. Dewar has recent and relevant financial experience and the Committee as a whole has competence relevant to the financial sector in which the Company operates. The Company Secretary acts as its Secretary.

The Audit Committee oversees, on behalf of the Board, financial reporting, the appropriateness and effectiveness of systems and controls, the work of Internal Audit and the arrangements for and effectiveness of the external audit. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the Interim Report lies with the Board. The Committee also reviews procedures for detecting fraud and preventing bribery, reviews whistleblowing arrangements for employees to raise concerns in confidence, and reviews, as necessary, arrangements for outsourcing significant operations.

Nomination Committee

Membership and meetings

The Nomination Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Sir Alan Yarrow. 67% of the Committee's membership therefore comprises independent non-executive Directors. The Group General Counsel acts as its Secretary. The Committee meets once a year and otherwise as required.

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition of the Board. The Nomination Committee is responsible for and evaluates on a regular basis the balance of skills, experience, independence and knowledge on the Board, its size, structure and composition, retirements and appointments of additional and replacement directors and will make appropriate recommendations to the Board on such matters. The Nomination Committee also considers performance, training requirements and succession planning, taking into account the skills and expertise that will be needed on and beneficial to the Board in the future.

Remuneration Committee

Membership and meetings

Membership of the Remuneration Committee is limited to non-executive directors together with Sir Henry Angest as Chairman. The members of the Committee are Sir Henry Angest, Sir Christopher Meyer and Sir Alan Yarrow. 67% of the Committee's membership therefore comprises independent non-executive Directors. The General Counsel acts as its Secretary. The Committee meets once a year and otherwise as required.

The Committee has responsibility for producing recommendations on the overall remuneration policy for directors for review by the Board and for setting the remuneration of individual directors. Members of the Committee do not vote on their own remuneration.

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration including, inter alia, in relation to the Company's policy on executive remuneration determining, the individual remuneration and benefits package of each of the Executive Directors and the fees for Non-Executive Directors.

The Committee also deals with remuneration-related issues under the IFPRU Remuneration Code of the Financial Conduct Authority.

Donations Committee

Membership and meetings

The Donations Committee is chaired by Sir Henry Angest and its other members are Sir Christopher Meyer and Sir Alan Yarrow. The Committee considers any political donation or expenditure as defined within sections 366 and 367 of the Companies Act 2006. It meets as necessary.

Policy Committee

Membership and meetings

The Policy Committee is chaired by Andrew Salmon and its other members are James Cobb and Nicole Smith, General Counsel who also acts as its Secretary. Amongst its responsibilities, the Committee reviews the content of policy documentation to ensure that it meets legal and regulatory requirements and approves it on behalf of the Board.

23 March 2022