

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 (“FRC”) in July 2018 (“the 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. Moreover, the Group contains two subsidiaries authorised to undertake regulated business under the Financial Services and Markets Act 2000, one of which (Arbuthnot Latham & Co., Limited) 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, which is regulated by the Financial Conduct Authority. Arbuthnot Latham & Co., Limited (“AL”) also operates a branch in Dubai, which is regulated by the Dubai Financial Services Authority. Accordingly, the Group operates to the high standards of corporate accountability and regulatory compliance appropriate for such a business.

In March 2018, the AIM Rules were amended to require AIM companies to state which corporate governance code they had decided to apply, how the AIM company complies with that code, and where it departs from its chosen code an explanation of the reasons for doing so. This information is published, as required, on the Company’s website and the Company reviews it each year as part of its annual reporting cycle.

The Board decided to report against the UK Corporate Governance Code. This section of the Annual Report summarises how the Company applies the 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.

The Company is led by the Board which, following a new appointment in June 2019, comprises seven members: the executive Chairman, two other executive directors, Andrew Salmon and James Cobb, and four independent non-executive directors who thereby constitute at least half of the Board in line with the Code. 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.

In 2016 an independent Board Effectiveness Review was carried out by an external consultant. In 2017, 2018 and again in October 2019 it was determined to carry out the annual Board Effectiveness Review internally. The 2019 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 the previous year, 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 2019. 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 Board

The Board met regularly throughout the year, holding six scheduled meetings as well as two ad-hoc meetings respectively to consider the acquisition of a mortgage portfolio and to approve the appointment of new external auditors as well as a two-day off-site 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.

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.

All directors receive induction training upon joining the Board, with individual AIM and NEX Exchange training provided by the Company's Nominated Adviser and Corporate Adviser. Regulatory and compliance training is provided by the Group Head of Compliance or an external firm of lawyers. Risk management training is provided (including that in relation to the ICAAP and ILAAP) by the AL Chief Risk Officer with an overview of credit and its associated risks and mitigation by the AL Chief Credit Officer.

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 3 - The majority shareholder is Chairman and Chief Executive of ABG. Engagement with other major shareholders is carried out as appropriate by the Chairman, the Group Chief Operating Officer or the Group Finance Director. There has been no requirement to date to consult with them on matters delegated to Board committees, but if appropriate/when requested, this would be arranged.

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. As stated in the s172 Statement on page 22 of the Annual Report & Accounts 2019, 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.

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 as, 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 2020 AGM are Mr. Salmon, an executive Director, and Sir Alan Yarrow. Mr. Boardman is seeking election, having been appointed by the Board during the year. The contributions of Mr. Salmon, Sir Alan and Mr. Boardman 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 indefinitely, 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.

Provision 20 - The Board did not deem it necessary to use advertising or an external consultancy in identifying during the year Mr. Boardman as a suitable new non-executive director with legal expertise, given his credibility, knowledge and reputation and his availability following the announcement of his retirement from partnership.

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

26 March 2020