

ARBUTHNOT BANKING GROUP PLC

Statement of compliance with the UK Corporate Governance Code

Introduction

Arbuthnot Banking Group PLC (ABG) has a strong and effective corporate governance framework, endorsing the principles of openness, integrity and accountability. As such it complies with governance requirements applicable to and appropriate for it, taking into account its size and circumstances, and in particular the role and overall shareholding of its majority shareholder.

UK Corporate Governance Code

ABG has agreed to report against **Financial Reporting Council's UK Corporate Governance Code**, published in July 2018 (Code) and this report sets out in broad terms how it complies with these provisions at this point in time. An update will be provided annually, or sooner in the event of any material changes taking place. A full version of the Code is available from the Financial Reporting Council website at www.frc.org.uk.

Overview of Compliance with the FRC Code, together with Exceptions

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

- ABG's purpose, values and strategy as a prudently-managed organisation align with its culture, with a view 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 ABG, with all material matters highlighted to the 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 (or more frequently in the case of intra-year changes to the Code) is carried out, comparing the ABG'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.

The Board has also commissioned both external and internal (Internal Audit) board effectiveness and corporate governance reviews, the output from which has been taken into account. The PRA also conducts its own reviews of governance, as part of its overall monitoring of an authorised banking firm.

Where ABG governance does not completely align with 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 ABG.

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

Provision 3 - Engagement with major shareholders is carried out as appropriate, by the Chairman, the Group Chief Operating Officer or the Group Finance Director.

Provision 5 – ABG has less than 15 employees, all of whom have direct access to Board members. As such, it is not necessary to appoint an employee representative to the Board.

Provision 9 - Sir Henry Angest carries out the role of Chairman and Chief Executive¹, 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 to this².

Provision 11 – While Sir Christopher Meyer is technically deemed not to be independent due to his Board tenure exceeding nine years, his views and any challenge to executive management remain firmly independent.

Provision 12 – ABG has not appointed a Senior Independent Director, as shareholders have open lines of communication with the Chairman, the Group Chief Operating Officer, the Group Finance Director and other Directors.

Provision 14 – Attendance at meetings is not recorded as, should he be unable to attend a meeting, that director receives relevant papers in the normal manner and relays their 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, ABG will continue to offer directors for re-election on a three-year rolling basis in accordance with company law.

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

28 September 2018

¹ Sir Henry's appointment predated the provision for independence upon appointment.

² ABG 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 or President.