

ARBUTHNOT BANKING GROUP PLC

AIM Rule 26 Corporate Governance Disclosure:

Application of UK Corporate Governance Code

Introduction and Overview

The Company has a strong and effective corporate governance framework. The Board endorses the principles of openness, integrity and accountability which underlie good governance and applies the principles of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (“the FRC Code”), and complies with its provisions in so far as they are considered appropriate for the Company, given its size and circumstances, and the role and overall shareholding of its majority shareholder. The Company has been approved by the Prudential Regulation Authority (“PRA”) as a parent financial holding company of its banking subsidiary, Arbuthnot Latham & Co., Limited. Arbuthnot Latham is authorised by the PRA and regulated by the Financial Conduct Authority (“FCA”) and by the PRA. Three of its subsidiaries, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited, are authorised and 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 decided in 2018 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.

In January 2024 the FRC made limited revisions to its Code, publishing a UK Corporate Governance Code 2024 (“the 2024 Code”). The 2024 Code is not applicable to the Company until its year beginning 1 January 2025 and for one provision until its year beginning 1 January 2026. The Company will be reviewing its procedures to enable the Board to report under the 2024 Code, as required, in due course.

Leadership and Purpose

The Company is led by the Board which comprises ten members: Sir Henry Angest, the Executive Chairman and Chief Executive; two other executive directors, Andrew Salmon and James Cobb; six independent non-executive directors, Sir Nigel Boardman, Angela Knight, Ian Dewar, Sir Alan Yarrow, Jayne Almond and Lord Sassoon; and one other non-executive Director, Frederick Angest. This means that more than half of the Board, excluding the Chairman, comprises independent non-executive directors.

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 sustainable growth over the longer-term with a culture to match. Investment in resources has been strong and has continued where and as appropriate, 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 which are fully embedded into day-to-day activities. These are integrity, respect, empowerment, energy and drive, and collaboration. A formal approach to Environmental, Social and Governance (ESG) is in place to develop over time under five ‘pillars of sustainability’ – governance, employees, community, environment and clients.

The Board

The Board met regularly throughout the year. In total it held eight scheduled meetings, six of which were held jointly with the Board of Arbuthnot Latham with the other two being held to approve the Annual and Interim Reports, and two ad-hoc meetings relating to the fundraising. It also held a separate strategy meeting, together with the AL Directors, in September. 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, as set out in the Schedule of Matters Reserved to the Board which is reviewed annually and is published on the Company's website at http://www.arbuthnotgroup.com/corporate_governance.html. 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 AL Chief Compliance Officer or by an external firm of lawyers, accountants and other subject matter experts. 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.

Board Evaluation

The annual Board Effectiveness Review was conducted internally. The 2022 evaluation took the form of a The annual Board Effectiveness Review was conducted internally. The 2023 evaluation took the form of a confidential online 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. They also covered clarity of the business, strategy and risk and accountability. The results were discussed by the Board in February 2024 and proposed actions arising will be considered in due course. 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.

Overview of Compliance with the FRC Code, together with Exceptions

The Board focuses not only on the provisions of the Code but on 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 align completely 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, which has had a positive 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. Executive Directors and senior management are fully engaged with the workforce, all of whom interact on a daily basis. Mr. Dewar is the Company's Whistleblowing Champion and is available at all times in this role. It has not been deemed necessary to appoint an employee representative to the Board as the Company has fewer than 20 employees, all of whom have direct access to the Board including its Non-Executive Directors. Given its size, 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 Arbuthnot Latham Group's workforce.

Provision 9 – The Chairman was not independent on appointment, though he was appointed prior to the introduction of the provision. 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 Company follows the US model that is 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. In his role as CEO, Sir Henry Angest is responsible for the effective operation and delivery of the business and ensures that he is surrounded by an exceptional management team which ensures the strong leadership required. In particular, ABG has a strong Group Chief Operating Officer and Group Finance Director ensuring challenge and independence from a business perspective, against the stakeholder focus of the Chairman carrying out his Chairman's role.

Provision 10 – The Board considers Jayne Almond, Sir Nigel Boardman, Angela Knight and Lord Sassoon to be independent, notwithstanding their directorships and, in the case of Sir Nigel his chairmanship, at Arbuthnot Latham since their views and any challenge are firmly independent from executive management in both companies. The Board is of the view that the dual directorships complement one another and that there is a benefit to be derived from the appointment of independent directors to both boards simultaneously.

Provision 12 – The Board has not appointed a Senior Independent Director, as the main shareholder is the Chairman and other large independent shareholders communicate frequently with the Chairman, the Group Chief Operating Officer and the Group Finance Director and with the Company's stockbroker, Shore Capital.

Provision 14 – Attendance at meetings is not reported. In the event that a Director is 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 – Directors retire by rotation every three years in accordance with the Company's Articles of Association and company law. The Directors seeking re-election at the 2024 AGM are James Cobb and Ian Dewar, who have served on the Board for 15 years and 8½ years respectively. The contribution of Mr. Cobb as the Group Financial Director has been invaluable in managing the capital and liquidity requirements of the Group. He has also played a pivotal role in sourcing and delivering the acquisitions that have shaped the strategy of the Group.

Mr. Dewar, with a wealth of experience as a partner in a major accounting firm, has successfully chaired the Audit Committee. Jayne Almond, Angela Knight and Lord Sassoon, appointed to the Board by the Directors on 1 September 2023, will be seeking election by Ordinary shareholders. Accordingly, the Board fully supports the resolutions for their respective reappointment and appointment of these Directors.

Provision 19 - Sir Henry Angest's role as Chairman is critical to and reflective of the overall group structure. It is through the responsibilities that derive from this role that he is able to consider and protect not only the interests of other shareholders, but also his own interests as a majority shareholder as their interests are aligned. It is for this reason that he surrounds himself with notably strong directors who individually, and as a group, ensure the protection of not only his investments, but also those of other shareholders. As such, he remains as Chairman notwithstanding the length of his tenure.

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 2023 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 AL Risk Committee reports to the Board at its regular meetings, held jointly with the Arbuthnot Latham Board, 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 Nigel Boardman, Sir Alan Yarrow and, since September 2023, Jayne Almond, Angela Knight and Lord Sassoon. All of the Committee's members are therefore independent non-executive Directors. Mr. Dewar and Lord Sassoon have 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 Nigel Boardman and Sir Alan Yarrow. A majority of the Committee's members are therefore independent non-executive Directors. The Company Secretary 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 other members of the Committee are Sir Nigel Boardman and Sir Alan Yarrow. As such, a majority of the Committee's members are therefore independent non-executive Directors. The Company Secretary acts as its Secretary. The Committee normally meets twice a year and otherwise, as required.

The Remuneration Committee has responsibility for approving the overall remuneration policy for directors for review by the Board. The Committee is also responsible for remuneration more generally 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. Members of the Committee do not vote on their own remuneration. The Committee also deals with remuneration-related issues, taking into account the requirements established by the PRA and the FCA.

Donations Committee

Membership and meetings

The Donations Committee is chaired by Sir Henry Angest and its other members are Andrew Salmon 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 the AL Chief Compliance Officer, the AL Chief Risk Officer and an AL non-executive director. A member of the Operational Risk team 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.

27 March 2024