THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. When considering what action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriately qualified independent financial adviser authorised under the Financial Services and Markets Act 2000 ("FSMA") immediately.

This Document has been prepared in connection with the proposed application for admission of all the issued ordinary shares ("Ordinary Shares") of the Company to trading on the NEX Exchange Growth Market via the NEX Exchange Growth Market's Fast-Track Admission Procedure and for the admission to trading on the NEX Exchange Growth Market of the to be issued ordinary non-voting shares ("Ordinary Non-Voting Shares") of the Company. This Document does not constitute a prospectus within the meaning of section 85 of FSMA and has not been drawn up in accordance with the Prospectus Rules published by the Financial Conduct Authority ("FCA") and a copy has not been, and will not be, approved or filed with the FCA. This Document does not constitute, and the Company is not making, an offer of transferable securities to the public within the meaning of section 102B of FSMA or otherwise.

The Directors, having taken all reasonable care to ensure that such is the case, warrant that the information contained in this Document is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import. Likewise, they also confirm that the information not contained within this Document, but required by the "NEX Exchange Growth Market – Rules for Issuers", is available in the public domain and accessible by visiting the Company's website.

ARBUTHNOT BANKING GROUP PLC

(Incorporated in England and Wales with company number 01954085)

EXPLANATORY CIRCULAR

ISSUE OF ORDINARY NON-VOTING SHARES AND ADMISSION OF ORDINARY SHARES AND ORDINARY NON-VOTING SHARES TO THE NEX EXCHANGE GROWTH MARKET

The Company's NEX Exchange Corporate Adviser is Grant Thornton UK LLP.

The NEX Exchange Growth Market, which is operated by NEX Exchange Limited ("NEX Exchange"), a Recognised Investment Exchange, is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies.

It is not classified as a Regulated Market under EU financial services law and NEX Exchange Growth Market securities are not admitted to the Official List of the United Kingdom Listing Authority. Investment in an unlisted company is speculative and involves a higher degree of risk than an investment in a listed company. The value of investments can go down as well as up and investors may not get back the full amount originally invested. An investment should therefore only be considered by those persons who are prepared to sustain a loss on their investment. A prospective investor should be aware of the risks of investing in NEX Exchange Growth Market securities and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

The Company is required by NEX Exchange to appoint a NEX Exchange Corporate Adviser to apply on its behalf for admission to the NEX Exchange Growth Market and must retain an NEX Exchange Corporate Adviser at all times. The requirements for a NEX Exchange Corporate Adviser are set out in the NEX Exchange Corporate Adviser Handbook and the NEX Exchange Corporate Adviser is required to make a declaration to NEX Exchange in the form prescribed by Appendix B thereof.

This Document has not been examined or approved by NEX Exchange or the FCA.

The Ordinary Shares and the Ordinary Non-Voting Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or under any state securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S promulgated under the Securities Act).

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Expected Timetable of Principal Events

Principal Event	Date
Publication of this Circular	12 April 2019
Record date for Bonus Issue	5:00 p.m. on 26 April 2019
Announcement of the number of Ordinary Non-Voting Shares to be issued	1 May 2019
Latest time and date for receipt of Forms of Proxy and CREST voting instructions	3:00 p.m. on 7 May 2019
Annual General Meeting	3:00 p.m. on 9 May 2019
Bonus Issue of Ordinary Non-Voting Shares	17 May 2019
Admission and commencement of dealing in the Ordinary Shares and Ordinary Non-Voting Shares on NEX	17 May 2019
Crediting of CREST stock accounts in respect of the Ordinary Non-Voting Shares	17 May 2019
Where applicable, expected date for despatch of definitive share certificates for Ordinary Non-Voting Shares in certificated form	by 31 May 2019

Company Officers, Registered Office and Advisers

Directors	Sir Henry Angest, Chairman and Chief Executive James Cobb, Group Finance Director Ian Dewar, Non-executive Director Sir Christopher Meyer, Non-executive Director Andrew Salmon, Chief Operating Officer Sir Alan Yarrow, Non-executive Director
Company Secretary	Nicholas Jennings
Registered office and head office of the Company	Arbuthnot House 7 Wilson Street London EC2M 2SN
Website	http://www.arbuthnotgroup.com
Corporate Adviser	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG
Nominated Adviser and Joint AIM Broker	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Joint AIM Broker	Numis Securities Limited The London Stock Exchange Building 10 Paternoster Square London EC4M 7LT
Legal advisers to the Company	Farrer & Co LLP 66 Lincoln's Inn Fields London WC2A 3LH
Auditors to the Company	KPMG LLP 15 Canada Square London E14 5GL
Registrars	Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

Definitions

The following definitions apply throughout this Document, unless the context requires otherwise:

Admission	the admission of the entire issued share capital of the Company to trading on NEX becoming effective in accordance with the NEX Exchange Rules
AIM	the AIM Market of the London Stock Exchange
Articles	the Articles of Association of the Company
Board of Directors	the directors of the Company as at the date of this Document, whose names are set out on pages 2 and 12 of this Document
Bonus Issue	the issue of Bonus Shares as described in Part I of this Document
Bonus Shares	the Ordinary Non-Voting Shares issued pursuant to the Bonus Issue
Companies Act	the Companies Act 2006 (as amended)
Company or Arbuthnot	Arbuthnot Banking Group PLC
CREST	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form, operated by Euroclear UK & Ireland Limited
CREST Regulations	the Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended)
Document or Circular	this Explanatory Circular
EU	the European Union
Euroclear	Euroclear UK & Ireland Limited, the operator of CREST
Existing Ordinary Shares	the 15,279,322 Ordinary Shares in issue as at the date of this Document
FCA	the Financial Conduct Authority of the United Kingdom
FSMA	the Financial Services and Markets Act 2000 (as amended)
Grant Thornton	Grant Thornton UK LLP, NEX Exchange Corporate Adviser to the Company, authorised and regulated by the FCA
Group	the Company and its subsidiaries and subsidiary undertakings (in each case as defined in the Companies Act)
ICAAP	the Individual Capital Adequacy Assessment Process
London Stock Exchange	London Stock Exchange plc

NEX Exchange	NEX Exchange Limited, a Recognised Investment Exchange under section 290 of FSMA
NEX Exchange Growth Market or NEX	the primary market segment operated by NEX Exchange for dealings in unlisted securities
NEX Exchange Rules	NEX Exchange Growth Market – Rules for Issuers
Ordinary Non-Voting Shares	ordinary non-voting shares of £0.01 each in the capital of the Company
Ordinary Shares	ordinary shares of £0.01 each in the capital of the Company
Prospectus Rules	the prospectus rules made by the FCA under Part VI of the FSMA, as amended
Qualifying Shareholders	Shareholders who are on the register at the close of business on the Record Date
Record Date	the record date for the Bonus Issue being 5.00 p.m. on 26 April 2019
Shareholder(s)	person(s) who is/are registered as holder(s) of Ordinary Shares from time to time
Takeover Code	the City Code on Takeovers and Mergers published by the Takeover Panel
Takeover Panel	the UK Panel on Takeovers and Mergers
Transaction	the Bonus Issue and Admission
UK or United Kingdom	United Kingdom of Great Britain and Northern Ireland
uncertificated or in uncertificated form	Ordinary Shares recorded on the register of members of the Company as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of an instruction issued in accordance with the rules of CREST
USA or United States	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
£ and p	United Kingdom pounds Sterling and pence, respectively.

Part I – Background to the Transaction

Introduction

The Company has published its annual report and accounts to Shareholders which includes within it a notice convening an annual general meeting of the Company (**AGM**) to take place at 3.00 p.m. on 9 May 2019 at Arbuthnot House, 7 Wilson Street, London EC2M 2SN. At the AGM, Shareholders will be asked to vote on a number of resolutions including the creation of a new class of Ordinary Non-Voting Shares.

This Circular has been prepared to provide some background to the resolutions and to explain the key terms of the new class of Ordinary Non-Voting Shares and of the Admission.

Background

Issue of Ordinary Non-Voting Shares and Application for Admission of Shares to the NEX Exchange Growth Market

The current share capital in the Company comprises Ordinary Shares which are admitted to trading on AIM. As at 4 April 2019 (being the latest practicable date prior to the publication of this Circular) the Company's issued share capital consisted of 15,279,322 Ordinary Shares, of which 390,274 are held in Treasury. Accordingly, the number of Ordinary Shares with voting rights is 14,889,048 Ordinary Shares. Each of the Ordinary Shares has the right to one vote at general meetings of the Company and otherwise.

The Company proposes to create a new class of Ordinary Non-Voting Shares. These Ordinary Non-Voting Shares will have the same rights as the Ordinary Shares except that they will not carry a vote at meetings of the Company or otherwise except in limited circumstances. The Company proposes to issue them to holders of Ordinary Shares on the Record Date by way of a Bonus Issue. Further details of the rights of the Ordinary Non-Voting Shares, the Bonus Issue by which they are being issued and allotted to Shareholders and the reasons for creating this new class of share are set out below.

Bonus Issue

The Company proposes to allot and issue the new Ordinary Non-Voting shares to the holders of Ordinary Shares appearing on the register of members of the Company on the Record Date on the basis of one Ordinary Non-Voting Share for every whole one hundred Ordinary Shares held (or such other ratio as the Company determines).

The number of Ordinary Non-Voting Shares to be issued to the Qualifying Shareholders will be announced as soon as practicable following the Record Date.

The Bonus Shares will be allotted and issued credited as fully paid to the Qualifying Shareholders. Qualifying Shareholders will not need to make any payment for the Bonus Shares allocated to them and, other than voting on the resolutions at the AGM, need not take action in respect of the Bonus Issue.

The Bonus Shares will be credited to the CREST account of the relevant Qualifying Shareholder on 17 May 2019. It is intended that, if applicable, definitive share certificates in respect of the Bonus Shares will be distributed by 31 May 2019. No temporary documents of title will be issued.

As at 4 April 2019, the Company held 390,274 Ordinary Shares in Treasury and it will participate in the Bonus Issue and receive Ordinary Non-Voting Shares in respect of that holding of Ordinary Shares held in Treasury.

The Ordinary Non-Voting Shares will be admitted to trading on NEX but will not be admitted to trading on AIM. The Ordinary Non-Voting Shares will trade under the ticker NEX: ARBN and with the ISIN GB00BJRHYM66.

The Ordinary Shares will continue to be admitted to trading on AIM and will also be admitted to trading on NEX at the same time as the Ordinary Non-Voting Shares.

It is expected that both the Ordinary Shares and the Ordinary Non-Voting Shares will be admitted to trading on NEX on 17 May 2019.

The issue of Ordinary Non-Voting Shares is conditional on, amongst other matters, the approval of the holders of Ordinary Shares to a number of ordinary resolutions to be proposed at the AGM.

Reasons for the issue of Ordinary Non-Voting Shares

The Directors believe that the issue of Ordinary Non-Voting Shares will have the following advantages for the Company:

- Following the creation of the Ordinary Non-Voting Share class, and the admission of these shares to NEX, the Company will be in a position to seek to raise new funds either by the issue of new Ordinary Shares, or by the issue of new Ordinary Non-Voting Shares, or both. This gives the Company greater flexibility in the event that additional capital is raised, whether for growth of the business, working capital or for regulatory capital reasons.
- Qualifying Shareholders will receive securities which may be traded on NEX.
- The share capital base of the Company will increase following the issue of the Ordinary Non-Voting Shares but without affecting the votes attached to the Ordinary Shares.
- The PRA has approved in principle the issue of the Ordinary Non-Voting Shares, up to a maximum value of £3 million, which may be included in the Company's regulatory capital.

Information Concerning the Ordinary Non-Voting Shares

The Ordinary Non-Voting Shares will be admitted to trading on NEX. The expected admission date is 17 May 2019.

The Ordinary Non-Voting Shares will be issued in accordance with the Articles and the Companies Act.

Rights of the Ordinary Non-Voting Shares

The Ordinary Non-Voting Shares will rank equally with each other and with the Ordinary Shares but will have no right to vote at any general meeting of the Company or otherwise, save in the limited circumstances as set out below.

In all other respects, the Ordinary Non-Voting Shares will have the same rights and obligations as the Ordinary Shares under the Articles, including in respect of the payment of dividends, a return of capital on winding up and the right to receive notice of, and to attend, any general meeting of the Company. The Ordinary Non-Voting Shares are transferable without restriction in the same way as the Ordinary Shares.

The rights of the Ordinary Non-Voting Shares will not be able to be abrogated or varied without the consent in writing of the holders of three-fourths in nominal value of the holders of the Ordinary Non-Voting Shares (excluding any shares held by the Company as Treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the Ordinary Non-Voting Shares. This right is a protection for the Ordinary Non-Voting Shares.

Information relating to the Ordinary Shares

The Ordinary Shares will also be admitted to trading on NEX. The expected admission date is 17 May 2019. The Ordinary Shares will continue to be admitted to trading on AIM. An Ordinary Share and an Ordinary Non-Voting Share will rank equally in respect of the payment of dividends or other distributions. Any future dividends or distributions will therefore be paid pro rata to both classes of share and this will reduce the proportion of a dividend or distribution received on each Ordinary Share. Following the Bonus Issue, the Ordinary Non-Voting Shares will comprise approximately 1% of the enlarged share capital of the Company.

The NEX Exchange Growth Market

NEX is a market for earlier stage, entrepreneurial companies seeking access to growth capital. Its regulatory framework is specifically designed to meet the needs of smaller companies. The admission criteria and ongoing obligations are designed to allow management to focus on running their business and generating returns for shareholders, whilst still protecting investors.

The NEX Exchange is a Multilateral Trading Facility (**MTF**) within the meaning of Article 4(1)(22) of the Markets in Financial Instruments Directive 2014 (**MiFID**). It is also designated a Recognised Growth Market by Her Majesty's Revenue & Customs, so trades executed in UK companies on this market are exempt from UK Stamp Duty and Stamp Duty Reserve Tax.

The Company considers that NEX is an appropriate market on which to admit the Ordinary Shares and the Ordinary Non-Voting Shares.

Conditions

The issue of the Ordinary Non-Voting Shares is conditional on:

a. The approval of the holders of Ordinary Shares to the ordinary resolutions to be proposed at the AGM; and

b. The admission to trading of the Ordinary Shares and the Ordinary Non-Voting Shares on NEX.

Risk Factors

Risk factors relating to the Company and the Shares are set out in Part II of this Document.

Interests of Persons Involved in the Offer

Other than to the Company's professional advisers in connection with the Transaction, no other person has received a payment in respect of the Bonus Issue or the admission of the Ordinary Shares or the Ordinary Non-Voting Shares.

Tax Consequences of the Bonus Issue

Introduction

The information in this section is based on the Directors' understanding of current UK tax law and HM Revenue & Customs published practice as at the date of this Document, both of which are subject to change at any time. It should be regarded as a summary of the tax treatment likely to be afforded to UK resident shareholders holding their Ordinary Shares in the Company as an investment. It does not constitute legal or tax advice and shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the UK are strongly recommended to consult a professional advisor regarding their own tax position.

Tax Residence of the Company

The Company is considered to be resident for tax purposes in the UK. Accordingly, the information provided in this section reflects the taxation treatment appropriate to an investment in a UK tax resident company.

Tax Consequences of the Bonus Issue

a. *CGT*

The Bonus Issue should fall within the "reorganisation" rules for the purposes of UK taxation of chargeable gains (**CGT**) so that shareholders should not be treated as having disposed of their Ordinary Shares upon receipt of the Bonus Shares allotted. Instead the Bonus Shares will be treated as the same asset, acquired at the same time as a shareholder's Ordinary Shares. For CGT purposes a shareholder's base cost in his Ordinary Shares will be apportioned between his Ordinary Shares and his Bonus Shares based on their respective market values on their first day of trading of the Bonus Shares.

b. *Income Tax*

The Bonus Issue will be treated as giving rise to a de minimis distribution for income tax purposes of an amount equal to the 1p nominal value of each Bonus Share. The tax treatment of this for Shareholders is as set out in the Taxation of Dividends section below.

c. *Inheritance Tax*

The Bonus Shares should, like the Ordinary Shares, qualify for business property relief for the purposes of inheritance tax as they are unquoted shares in a qualifying company. On the basis that the Bonus Shares will be acquired by way of a CGT "reorganisation" the Bonus Shares should be treated as having been owned by a shareholder for the same period of time as the shareholder has owned his Ordinary Shares.

d. *Stamp Duty and Stamp Duty Reserve Tax (***SDRT***)*

No UK stamp duty or SDRT will be payable on the issue of the Bonus Shares by the Company.

Taxation of chargeable gains made by shareholders on subsequent disposals

A sale or other disposal of shares may, subject to any available reliefs and exemptions, give rise to a chargeable gain (or allowable loss) for CGT purposes.

a. *Individuals and Trustees*

Chargeable gains realised on a disposal of shares by an individual or trustee resident in the UK may be subject to capital gains tax. An individual shareholder's annual exemption may reduce the chargeable gain. UK resident individuals are generally subject to capital gains tax at a current flat rate of 20 per cent (reduced to 10 per cent where the gain falls within an individual's unused basic rate income tax band). Trustees are generally subject to capital gains tax at 20 per cent.

An individual shareholder who disposes of shares while only temporarily not resident in the UK for tax purposes may, under anti-avoidance legislation, still be liable to UK tax on his or her return to the UK. A period of non-residence of less than five whole tax years prior to the year in which the shareholder returns to the UK will be treated as a temporary period for these purposes.

b. Companies

Disposals realised by corporate shareholders within the charge to corporation tax (currently 19 per cent) may give rise to a chargeable gain subject to the availability of any exemption (e.g. the substantial shareholding exemption).

c. Non-Residents

Shareholders who are not resident in the UK and who are not affected by the rule relating to temporary non-residence will, save in limited circumstances, not be liable to UK taxation on chargeable gains realised on the disposal of their shares. Such shareholders may be subject to foreign taxation on any gain realised under the local law of their country of residence and should consult their own tax adviser concerning their tax liabilities on such gains.

Taxation of Dividends

The taxation of dividends paid by the Company and received by an investor resident for tax purposes in the UK is summarised below.

a. Individuals

From 6 April 2018, shareholders who are individuals receive a tax-free dividend allowance of £2,000 per year and are liable to UK income tax on the amount of any cash dividends received over this. The rates of income tax on dividend income that exceed the tax-free allowance are 7.5 per cent for basic rate taxpayers, 32.5 per cent for higher rate taxpayers and 38.1 per cent for additional rate taxpayers.

b. Trustees

Trustees of discretionary trusts have a standard rate band (**SRB**) of £1,000.

UK resident trustees of a discretionary trust in receipt of dividends are liable to income tax at a rate of 38.1 per cent on the dividend income above the SRB and at a rate of 7.5 per cent on dividends received within the SRB.

c. Companies

Although a UK resident corporate shareholder is potentially liable to corporation tax on its dividend income, it is anticipated that the general exemption for dividends will be available to exempt from corporation tax corporate investors in receipt of dividends from the Company.

Withholding Tax and Tax Credit in the UK

The Company is not required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a shareholder. A shareholder resident outside of the UK may also be subject to taxation on dividend income under local law. A shareholder who is resident outside of the UK for tax purposes should consult his own tax adviser concerning his tax position in respect of dividends received from the Company.

Stamp Duty and SDRT

For as long as the Ordinary Shares and the Ordinary Non-Voting Shares are admitted to trading on NEX or on AIM (and are not traded on a recognised stock exchange for tax purposes) their transfer will be exempt from stamp duty and agreements for their transfer will be exempt from SDRT.

General

The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than in the UK, should consult his or her professional adviser immediately.

Admission and Dealings

The Ordinary Shares and the Ordinary Non-Voting Shares will be in registered form and may be issued either in certificated or uncertificated form. No temporary documents of title will be issued. Pending despatch of definitive certificates, transfers of Shares in certificated form will be certified against the Company's register of members. All documents or remittances sent by or to Shareholders will be sent through the post at the risk of the Shareholders.

It is expected that admission of the Ordinary Shares and the Ordinary Non-Voting Shares to trading on NEX and dealings will commence at 8:00 a.m. on 17 May 2019.

Part II - Risk Factors

The Directors have identified the risks described below, which could potentially have an adverse effect on the Company or its shares. The risks described below are the principal risks identified by the Directors; there may, however, be additional risks that the Directors currently consider not to be material or of which they are unaware. A shareholder and a prospective investor should consider carefully whether an investment in the Company is suitable for him/her in the light of his/her personal circumstances and the financial resources available to him/her. An investment in the Company shares should only be undertaken by someone who can sustain the total loss of their investment. If you are in any doubt as to the action you should take, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities if you are resident in the UK, or by another suitably qualified adviser if resident in another jurisdiction.

Risks relating to the company and its activities:

Strategic Risk

Strategic risk is the risk that may affect the Group's ability to achieve its corporate and strategic objectives. This risk is important to the Group as it continues its growth strategy. However, the Group seeks to mitigate strategic risk by focusing on a sustainable business model which is aligned to the Group's business strategy. Also, the Board of Directors meets once a year to hold a two day board meeting to ensure that the Group's strategy is appropriate for the market and economy.

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. This risk exists in Arbuthnot Latham & Co., Limited, (a wholly owned subsidiary of the Company) which currently has a loan book of £1,225 million. The lending portfolio in Arbuthnot Latham & Co., Limited is extended to clients, the majority of which is secured against cash, property or other assets. Credit risk is managed through the Credit Committee of Arbuthnot Latham & Co., Limited.

Market Risk

Market risk arises in relation to movements in interest rates, currencies and equity markets. The Group's treasury function operates mainly to provide a service to clients and does not take significant unmatched positions in any market for its own account. As a result, the Group's exposure to adverse movements in interest rates and currencies is limited to interest earnings on its free cash and interest rate re-pricing mismatches. The Group actively monitors its exposure to future interest rate rises.

The Group is exposed to changes in the market value of properties. The current carrying value of Investment Property is £67.1 million. Any changes in the market value of the property could have a significant impact on the profit or loss of the Group.

Liquidity Risk

Liquidity risk is the risk that the Group cannot meet its obligations as they fall due. The Group takes a conservative approach to managing its liquidity profile. Retail client deposits and drawings from the Bank of England Term Funding Scheme fund the Group. The loan to deposit ratio is maintained at a prudent level, and consequently the Group maintains a high level of liquidity. The Arbuthnot Latham & Co., Limited Board annually approves the Individual Liquidity Adequacy Assessment Process. The Directors model various stress scenarios and assess the resultant cash flows in order to evaluate the Group's potential liquidity requirements. The Directors firmly believe that sufficient liquid assets are held to enable the Group to meet its liabilities in a stressed environment.

Operational Risk

Operational risk is the risk that the Group may be exposed to financial losses from conducting its business. The Group is exposed to operational risks from its Information Technology and Operations platforms. There are additional internal controls in these processes that are designed to protect the Group from these risks.

Cyber Risk

Cyber risk is an increasing risk that the Group is subject to within its operational processes. This is the risk that the Group is subject to some form of disruption arising from an interruption to its IT and data infrastructure. The Group regularly tests the infrastructure to ensure that it remains robust to a range of threats, and has continuity of business plans in place including a disaster recovery provision.

Conduct Risk

As a financial services provider the Group faces conduct risk, including selling products to customers which do not meet their needs, failing to deal with customers' complaints effectively, not meeting customers' expectations; and exhibiting behaviours which do not meet market or regulatory standards.

The Group adopts a zero-risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all staff. Periodic spot checks and internal audits are performed to ensure these guidelines are being followed. The Group also has insurance policies in place to provide some cover for any claims that may arise.

Regulatory Risk

Regulatory risk is the risk that the Group will have insufficient capital resources to support the business or does not comply with regulatory requirements. The Group adopts a conservative approach to managing its capital. The Board approves an Individual Capital Adequacy Assessment Process ("ICAAP") annually, which includes the performance of stringent stress tests to ensure that capital resources are adequate over a three-year horizon. Capital and liquidity ratios are regularly monitored against the Board's approved risk appetite as part of the risk management framework.

Regulatory change also exists as a risk to the Group's business. Notwithstanding the assessments carried out by the Group to manage the regulatory risk, it is not possible to predict how regulatory and legislative changes may alter and impact the business. Significant and unforeseen regulatory changes may reduce the Group's competitive situation and lower its profitability.

Macroeconomic and Competitive Environment

The Group is also exposed to indirect risks that may arise from the macroeconomic and competitive environment. The economic environment is relatively stable in the UK. However, the international landscape is increasingly uncertain. The uncertain performance of the economies in the EU and the increasingly protectionist stance being taken by other major economies may have an adverse effect on the UK. In particular, this may cause a further softening of central London property prices, which may spread out further to the South East.

The Group monitors its exposure to future interest rate risks and currently has minimal lending to customers in products that would be directly sensitive to interest rate rises. However, at the current levels of interest rates, the affordability enjoyed by the Group's customers is beneficial.

Brexit

Given the uncertainty that exists over Brexit with the UK due to exit from the EU, the Group has tried to anticipate the risks that it may face if an economic shock arises as a result. It has also examined how business activities may be affected if free provision of services cross borders is prohibited.

The Group's only overseas operation is in Dubai, so the vast majority of the Group's income and expenditure is based in the UK. However, after leaving the EU, we will no longer be able to provide financial advisory services to EU citizens in the EU. This amounts to an insignificant proportion of overall fee income for the Group. We have however made plans to be able to generate uninterrupted EU payments via the SEPA network.

Analysis is ongoing with our card service provides to ensure that data transfers made from the UK to EU and vice versa are compliant with the appropriate Data Protection Rules.

Finally, there are two significant business risks that may arise due to an economic shock. Firstly, increased credit risk as borrowers are unable to continue to meet their interest obligations as they fall due. This would be alongside a significant fall in the collateral values of our security held against the loans. The average loan to value of our lending book is 53.9%, so to have any material impact this fall in collateral values would have to be severe and prolonged. In our ICAAP stress test scenarios, we are able to withstand a property value fall of 40% over an 18 month period alongside a doubling of our loss rates.

The second significant asset class that would be at risk in a down turn would be the Investment Properties, in particular 20 King Street. Any potential reduction in confidence in the West End prime office market is likely to manifest itself in a lower valuation.

Risks Relating to the Ordinary Non-Voting Shares:

Non-Voting

Holders of the Ordinary Non-Voting Shares are not entitled to vote on any matters relating to the Company or to participate in the management or control of its business and affairs. In particular, holders of the Ordinary Non-Voting Shares do not have the right to elect or remove members of the Board of the Company, vote in favour, or against, resolutions at the Company's general meetings, prevent a change of control of the Company or propose changes to or otherwise approve its objectives or strategies. As a result, the holders of the Ordinary Non-Voting Shares will not be able to influence the direction of the Company's business and affairs, or to cause a change in its management, even if they are unsatisfied with the performance of the Company or the value of the Ordinary Non-Voting Shares.

Share Price Volatility

There is no certainty that the Ordinary Non-Voting Shares will trade at a price which is equivalent to the price of the Ordinary Shares, and movements in the price of the Ordinary Non-Voting Shares may not be in line with movements in the price of the Ordinary Shares.

The price of securities and the income from them can go down as well as up. The price at which the Ordinary Non-Voting Shares may trade and the price which shareholders may obtain for their Ordinary Non-Voting Shares will be influenced by a large number of factors, some specific to the Company and some which may affect listed companies generally. These factors could include the performance of the Company's operations, large purchases or sales of Ordinary Non-Voting Shares, liquidity (or absence of liquidity) in the Shares, currency fluctuations, legislative or regulatory changes and general economic conditions. The value of the Shares may therefore fluctuate sharply and may not reflect their underlying asset value.

No Guarantee of Liquidity

There may also be little or no trading in the Ordinary Non-Voting Shares on NEX, which may result in shareholders being unable to dispose of their shareholdings. There is no guarantee that the market price of the Ordinary Non-Voting Shares on NEX will accurately reflect the underlying value of the Company. In the case of deterioration of the Company's financial situation, demand for the Ordinary Non-Voting Shares and, at the same time, their price may decrease.

Dividend Payments

There is a risk that the Company will not pay a dividend on either of the Ordinary Shares or the Non-Voting Ordinary Shares or that it will not maintain the current level of dividend. A decision on the payment of a dividend will depend on the profitability of activities, cash flows, investment plans and the general financial situation, amongst other circumstances.

No Guarantee of Return

The value of the Ordinary Non-Voting Shares is subject to normal market fluctuations and other risks inherent in investing in securities. There is no assurance that any appreciation in the value of the Ordinary Non-Voting Shares will occur or that the objectives of the Company will be achieved.

Shareholders may not recoup the original amount invested in the Company. The issue price of the Ordinary Non-Voting Shares may not reflect the trading value of the Ordinary Non-Voting Shares when issued or, the actual value of the Ordinary Non-Voting Shares, the Company's potential earnings or results or any other recognised criteria of value.

Part III - Other Information

Registered Office and Principal Place of Business

The Company's registered office address and principal place of business is Arbuthnot House, 7 Wilson Street, London, EC2M 2SN, United Kingdom (telephone number: +44 (0)20 7012 2400).

Website

http://www.arbuthnotgroup.com/default.html

Auditors

KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom

Directors' Biographies

Sir Henry Angest

Appointed to the Board in December 1985.
Sir Henry is the Chairman and Chief Executive and is also Chairman of Arbuthnot Latham & Co., Limited. He gained extensive national and international experience as an executive of The Dow Chemical Company and Dow Banking Corporation. He was previously Chairman of Secure Trust Bank PLC and a Director until August 2018, Chairman of the Banking Committee of the London Investment Banking Association and a Director of the Institute of Directors. He is a Past Master of the Worshipful Company of International Bankers.

James Cobb FCA

Joined the Board in 1 November 2008 as Group Finance Director.
He was also appointed Deputy Chief Executive of Arbuthnot Latham & Co., Limited in May 2018. He was previously Deputy Chief Financial Officer and Controller of Citigroup's Global Consumer Group in Europe, Middle East and Africa and qualified as a Chartered Accountant with Price Waterhouse.

Andrew Salmon FCA

Appointed a Director in March 2004.
He joined the Company in 1997 as Head of Business Development and is also Chief Operating Officer and since July 2018 Chief Executive of Arbuthnot Latham & Co., Limited. He was a director of Secure Trust Bank PLC until August 2018. He was previously a director of Hambros Bank Limited and qualified as a Chartered Accountant with KPMG.

Ian Dewar FCA

Appointed a Non-Executive Director in August 2015.
He is Chairman of the Audit Committee. He was a Partner for 19 years in the Financial Services Practice of KPMG from which he retired in 2012 after 32 years at the firm. He is a non-executive director of Brewin Dolphin Holdings PLC.

Sir Christopher Meyer

Appointed a Non-Executive Director in October 2007.
He had a distinguished diplomatic career, culminating in 1997 as Ambassador to the USA. He was previously Ambassador to Germany, Press Secretary to Prime Minister John Major and from 2003 to 2009 Chairman of the Press Complaints Commission. He is also on the International Advisory Board of British American Business Inc., a member of the Advisory Board of Pagefield, Distinguished Fellow of the Royal United Services Institute and Honorary Fellow of Peterhouse, Cambridge.

Sir Alan Yarrow FCSI (Hon)

Appointed a Non-Executive Director in June 2016.
Sir Alan spent 37 years with Dresdner Kleinwort until 2009, latterly as Group Vice Chairman and Chairman of the UK Bank and then served as Chairman of the Chartered Institute for Securities & Investment until October 2018. He is Chairman of Turquoise Global Holdings Ltd and a director of Institutional Protection Services Ltd. He is also Vice President of the Royal Mencap Society, Independent Partnership Advisor to James Hambro & Partners and an advisor to Zeamo. Sir Alan is an Alderman, Magistrate and HM Lieutenant of the City of London, a member of the Court of the Fishmongers' Company, and Liveryman of several other Livery Companies. He is a member of the Takeover Appeal Board, the Advisory Board of the Commonwealth Investment & Advisory Council. Sir Alan was Lord Mayor of the City of London for the year 2014-15.

Admission to AIM

The Ordinary Shares were admitted to trading on AIM on 27 June 2005.

Sector Classification

Financial Services.

Transactions in the Company's Securities

The Company's shares are eligible for CREST settlement. There are no restrictions on the transfer of the Company's shares.

Shares in Public Hands

Under the definition set out under the NEX Exchange Rules, 34.45 per cent of the Company's Ordinary Shares are in public hands.

Substantial Shareholdings

As at 11 March 2019, the Company is aware of the following persons / entities that directly or indirectly hold an interest in the Company representing three per cent or more of the total voting rights of the Company:

Name	Number of Ordinary Shares	% of total voting rights
Sir Henry Angest	8,351,401	56.09
Liontrust Asset Management	961,028	6.45
Miton Asset Management	662,086	4.45
Slater Investments	595,638	4.00
Ronald Paston Esq	529,130	3.55
M&G Investment Management	527,268	3.54

The Takeover Code

The Company is subject to the Takeover Code.

Material Contracts

A summary of the material contracts, other than contracts entered into in the ordinary course of business, to which the Company, or any member of its group, is a party for the two years preceding the date of this Circular are set out below.

Property

In 2013, the Group entered into a 16 year lease on 7 Wilson Street, London (the head office for Arbuthnot Banking Group PLC and the principal location for Arbuthnot Latham & Co., Ltd), with a break at 11 years and rent reviews after 5, 10 and 15 years. The initial rent is £1.75m per annum.

In 2015, the Group entered into a 10 year lease to occupy part of the ground floor of The Senate, Southernhay Gardens, Exeter, with a break clause and rent review after 5 years.

In 2017, the Group entered into a 10 year lease to occupy part of the eighth floor of 82 King Street, Manchester, with a break clause and rent review after 5 years.

On 3 January 2018, the Group entered into a 12 year lease (up to 16 October 2029) to occupy the first, second and third floor of 10 Dominion Street London, with a break clause on 16 October 2024. The initial rent is £0.7m per annum.

Subordinated loan notes

The Group has in issue subordinated loan notes which were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2018 was €15,000,000 (2017: €15,000,000). The notes carry interest at 3 per cent over the interbank rate for three-month deposits in euros and are repayable at par in August 2035 unless redeemed or repurchased earlier by the Company. The notes in issue are not quoted.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is €15,000,000.

Acquisition of Renaissance

On 28 April 2017, the Group completed the acquisition of 100% of the share capital of Renaissance Asset Finance Limited ("**RAF**") from its founders following receipt of regulatory approval.

RAF is a provider of finance for a range of specialist assets which includes vintage and expensive cars and SME business assets. The acquisition supported the Group's strategy to diversify its proposition within the specialist financial services sector.

The consideration is to be paid in four staged amounts, all of which in cash. The first payment was equal to the net assets at completion of £2.1m. The further three payments are performance related and are based on the profits of RAF in each of the three calendar years 2018 to 2020. The maximum amount payable for the performance based payments is limited to £6.5m. The Group has also provided an intercompany loan to RAF at completion of £57m to re-finance RAF's existing finance liabilities. The consideration and the refinancing of RAF's funding liabilities were satisfied from the Group's current cash resources.

Acquisition of investment properties

King Street London

The Group acquired premises in the West End of London (namely 20 King Street/10 St James's Street) on 23 June 2016 for a consideration of £53.3m. The property comprises 22,450 square feet of office space and approximately 7,000 square feet of retail space. The property is held by way of leasehold from The Crown Estate Commissioners that expires in 2136 and with a rent review every five years. In addition to the above commitments, ground rent of £0.2m per annum is payable for the remaining term of 118 years of the King Street investment property.

The property is currently fully tenanted, with the main lease ending in 2019. The Group received £2.1m (2017: £2.1m) rental income during the year to 31 December 2018 and incurred £0.2m (2017: £0.2m) of direct operating expenses.

St Philips Place Birmingham

On 24 November 2017, the Group acquired leasehold premises in Birmingham (St Philips House, 4 St Philips Place) for a consideration of £6.1m. The property comprises 24,286 square feet of office space.

The property is unoccupied and is being refurbished at an estimated cost of £3.2m. After refurbishment the property will be let out.

Crescent Office Park, Bath

In November 2017, a Property Fund, based in Jersey and owned by the Group, acquired a freehold office building in Bath. The property comprises 25,526 square ft. over ground and two upper floors with parking spaces. The property was acquired for £6.35m. On the date of acquisition, the property was being multi-let to tenants and was at full capacity.

The Group recognised £0.5m rental income during the year to 31 December 2018 and incurred £0.5m of direct operating expenses.

Legal and Arbitration Proceedings

No member of the Group is, or has been, involved in any governmental, legal or arbitration proceedings which may have or have had in the 12 months preceding the date of this Document a significant effect on the Company's financial position or profitability or the financial position or profitability of the Company as a whole and, so far as the Directors are aware, there are no such proceedings pending or threatened against the Company.

Significant Change in the Company's Financial or Trading Position

A copy of the Company's Annual Report for the year to 31 December 2018 has been published separate to this Circular. There has been no significant change in the financial or trading position of the group since 31 December 2018, being the date of the Company's latest audited financial statements.

Working Capital Statement

The Directors confirm that, in their opinion having made due and careful enquiry, the working capital available to the Company and the Group will be sufficient for the period of at least twelve months following admission of the Ordinary Shares and the Ordinary Non-Voting Shares to NEX.