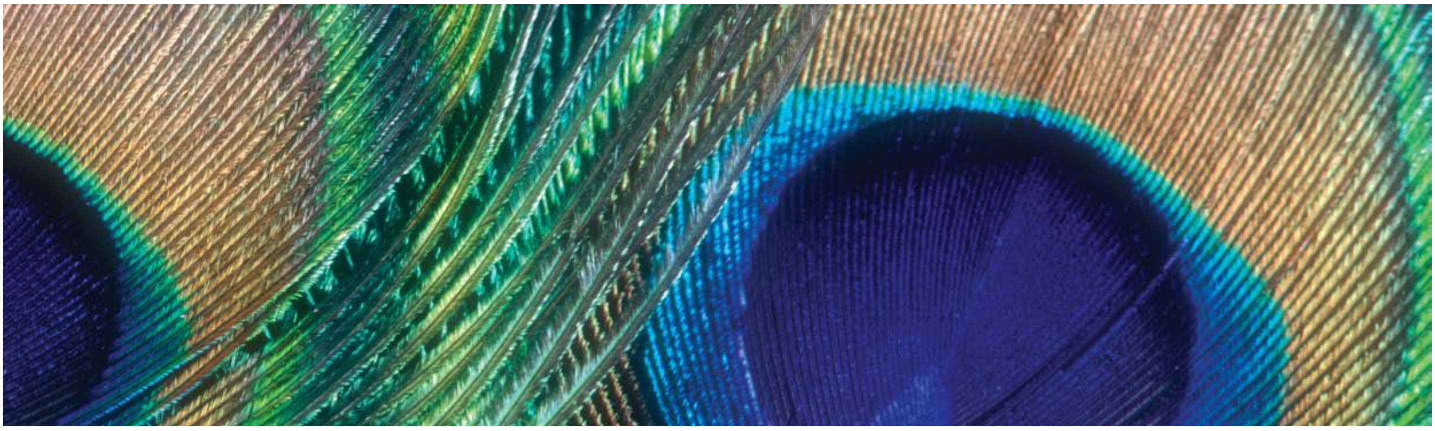
ARBUTHNOT BANKING GROUP PLC

Pillar 3 disclosures for the year ended 31 December 2021



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Overview

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Background

The Group's lead regulator, the Prudential Regulation Authority ("PRA"), sets and monitors capital requirements for the Group as a whole and for its regulated subsidiaries. The lead regulator adopted the EU Capital Requirement Regulation (575/2013) ("CRR") and the EU Capital Requirement Directive (2013/36/EU) ("CRD"). The requirements of the CRD had to be implemented into UK law and this was done primarily through the Financial Conduct Authority ("FCA") Handbook and PRA Rulebook. EU Directive 2019/878 amended the CRD and the PRA Rulebook and FCA Handbook were updated to capture the requirements applying from 29 December 2020. The CRR, as a Regulation, was directly applicable in the UK and because this applied before 11pm on 31 December 2020 it has been retained in UK law as 'retained EU legislation'.

Part Eight of the CRR sets out disclosure requirements for banks operating under the regime. The disclosure requirements (Pillar III) aim to complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II) and aim to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the Group. This document should be read in conjunction with the Group's Annual Report and Accounts for 2021.

Scope

The disclosures have been prepared at a consolidated level for Arbuthnot Banking Group PLC. These disclosures cover the Pillar III qualitative and quantitative disclosure requirements. There are no differences between the basis of consolidation of the Group for accounting and regulatory purposes.

The Group's banking subsidiary, Arbuthnot Latham & Co., Limited ("AL"), is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and by the PRA. Four of AL's subsidiaries, Asset Alliance Limited, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited ("RAF"), are regulated by the FCA.

AL, the Group's regulated banking subsidiary, reports to the PRA on a solo-consolidated basis. The solo-consolidated group includes RAF, the corporate entities within the Asset Alliance Group, and the unregulated subsidiaries Arbuthnot Commercial Asset Based Lending Ltd ("ACABL") and Arbuthnot Specialist Finance Limited ("ASFL").

Disclosure Policy

The Pillar III disclosures will be issued at a minimum on an annual basis. The disclosures will be as at the Accounting Reference Date ("ARD") of 31 December 2021.

The Pillar III disclosures are subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the Annual Report. The information contained in this document has not been audited by the Group's external auditors, except to the extent it is deemed to be equivalent to those made under accounting or listing requirements.

The Pillar III disclosures have been prepared purely for explaining the basis on which the Group has prepared and disclosed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on the Group.

Overview

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Media and location

The report will be published on the Arbuthnot Banking Group PLC corporate website (www.arbuthnotgroup.com).

Regulatory developments

The EU published Guidelines on disclosure requirements under Part Eight of the CRR in August 2017. Where required or appropriate these are considered within the Group's Pillar III disclosure document. The Group is below the PRA's thresholds for reporting the COVID-19 Pillar III disclosure templates.

In May 2019 the European Commission adopted a package amending the current CRR and CRD. This package is commonly referred to as CRR2 and the EU changes include, from June 2021, a binding leverage ratio requirement and a net stable funding ratio requirement.

The changes to the CRR were not implemented in the EU before the end of the Brexit transition period and so the PRA had to implement the rules in the UK. During 2021 the PRA published its final rules for the implementation of those Basel III reforms which will make up the UK's equivalent of the EU's CRR2. The PRA's implementation date is 1 January 2022.

The Basel Committee on Banking Supervision published its Basel III post-crisis regulatory reforms on 7 December 2017. These reforms include the revised standardised approach to credit risk and have a Basel implementation date of 1 January 2023. The original implementation date was 1 January 2022 but the Basel Committee announced a one year delay on 27 March 2020 in response to COVID-19. The timing of the application of these reforms to the Group is dependent on their implementation into UK law. It is expected that the PRA will publish a first consultation on these rules during 2022 and the PRA has advised that their intention is for the rules to be effective 1 January 2025.

Principal governing bodies

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 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 Board of directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against the risk of material misstatement or loss.

The Directors and senior management of the Group have formally adopted a Group Risk and Controls Policy which sets out the Board's attitude to risk and internal controls. Key risks identified by the Directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties. The Board also receives regular reports on any risk matters that need to be brought to its attention.

Significant risks identified in connection with the development of new activities are subject to consideration by the Board. There are budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

Strategy/Business model – Arbuthnot Banking Group

Arbuthnot Banking Group PLC is a dual listed AIM and AQSE Growth Market company that has a free float of 42.7% with the remaining 57.3% of shares owned by the Chairman Sir Henry Angest (54.7%) and held in the form of Treasury shares (2.6%) that have been purchased by the Company over time.

The Holding Company has investments in a number of subsidiaries several of which are either dormant or have no active business. The main trading subsidiary is Arbuthnot Latham & Co., Ltd.

The Group function is represented by the Arbuthnot Banking Group PLC Board, but on a day to day basis it is the Executive Directors i.e. Arbuthnot Banking Group Chairman & Chief Executive, Group Chief Operating Officer, and Group Finance Director, who ensure that the Bank carries out its business firstly, in accordance with the Group's well laid out philosophy, then as per the strategy and budget. Secondly, they ensure that the businesses remain in line with their risk appetites, in particular, with regard to the regulatory requirements. They also act as the interface to the regulators to ensure that good relations with regulatory bodies are maintained. Finally, they seek to protect the interests of Arbuthnot Banking Group's shareholders.

At a strategic level Arbuthnot Banking Group can be seen as determining and agreeing the optimal strategies for the businesses to grow, while making the best use of the finite resources available to the management team not least of which is capital.

Strategy/Business model – Arbuthnot Latham & Co., Ltd

The principal business of AL and its subsidiaries is Banking, Wealth Management, Asset Finance, Asset Based Lending, Specialist Lending and Commercial Vehicle Finance. The Bank's strategy is to grow its existing business units, and continue to diversify its income streams.

Banking: Private and Commercial Banking

AL provide Private Commercial Banking services to its clients. Private Banking provides traditional private banking services and Commercial Banking provides bespoke commercial banking services and tailored secured lending against property investments and other assets.

Banking is comprised of current accounts, deposit accounts, loans, overdrafts and foreign exchange. The two main business lines within this are lending and deposits.

Lending

The Bank extends credit to borrowers, who are usually high net worth, either in their own names or to their operating companies. The lending is done on a secured basis with the usual security being property, but other assets are sometimes taken as security. Additionally, borrowers are asked to give personal guarantees to support the loans.

The Bank lends at a conservative loan to value ("LTV") and for residential property will generally be below 70%. The average loan to value of our property backed lending book is 51.7%. With credit mitigation taken into account, as a result of the collateral received, the maximum exposure that AL can take is up to c£49m. At 31 December 2021 this limit was determined from the CRR definition of 'eligible capital' which comprised Tier 1 capital and a limited amount of Tier 2 capital. From 1 January 2022, under PRA rules, the Large Exposure limit is calculated based on Tier 1 capital only. This means that the maximum exposure for AL will be £43m.

The rates of interest are variable based upon either the Bank of England Bank rate, an external benchmark, or the AL base rate plus a margin. Depending on the complexity of the loans, fees may be charged either at origination, repayment or both.

The impairment loss rate on customer loans in 2021 was 0.19%.

Deposits

The Bank raises deposits from its clients via two products:

- Call deposits - these are deposits that are residual, as part of the client's floating balance on their current account.

- Term or notice deposits - these have an agreed rate for an agreed term, which provides a good source of stable funding to the Bank.

These deposits are supplemented by funding from other sources including:
- SIPP deposit money received from wealth management platforms;
- Cash balances not invested in other assets by the Investment Management business (typically 5% of Assets under Management);
- Funds drawn from the Term Funding Scheme with additional incentivises for SMEs (TFSME); &
- Arbuthnot Direct deposit platform. This enables the Group to provide deposit products directly to the retail market via an internet platform, with rates advertised on the best buy tables.

Wealth Planning
The Wealth Planning service provides bespoke financial strategies to the Bank's clients. These strategies are developed after understanding the client's long-term financial aspirations and plans, along with their attitude to risk. In general, the strategies are focused on capital and wealth preservation. The wealth planning service is offered on a restricted basis.

Investment Management
The Investment management service is based on discretionary fund management. The business is considered to be whole of market with client funds invested generally on a fund of funds basis. No funds are invested within in-house products.

Mortgage Portfolios
In December 2014, the Bank completed the purchase of a residential mortgage portfolio from the administrators of the Dunfermline Building Society for a discounted price of £106m. AL sold this portfolio in February 2021.

In August 2019, AL completed the purchase of the "Santiago" mortgage portfolio for a discounted price of c£258m.

The portfolio is closed to new business and has a proven track record of repayments and is supported by geographically diversified collateral. The portfolio operates on an outsourced service provider model.

Renaissance Asset Finance ("RAF")
In December 2016, Arbuthnot Latham reached agreement with the shareholders of Renaissance Asset Finance to acquire the company, with the transaction completing in April 2017.

RAF lends to SME businesses and High Net Worth Individuals to support their investment in new or used capital equipment and vehicles. Assets financed include plant and machinery, prestige and classic cars, commercial vehicles, taxis and business-critical soft assets. RAF also raises cash for its clients by re-financing their assets. The main funding products include hire purchase and leasing with finance periods normally between three and five years.

RAF is authorised to undertake regulated business under the Financial Services and Markets Act 2000 and is regulated by the FCA.

Arbuthnot Commercial Asset Based Lending ("ACABL")
ACABL launched in May 2018. It is a specialist asset based lender, focused on delivering working capital and growth finance facilities to SMEs and mid-market corporates. It builds long-term relationships with clients, supporting their objectives throughout the business and economic cycle.

ACABL provides full asset-based lending facilities plus cash flow loans in support of acquisition, refinancing, cash-out and turnaround scenarios. It delivers creative deal structures to tight timeframes and support businesses throughout their lifecycles, helping them drive their continued success. The business has been founded on strong established relationships with key business introducers, including the leading corporate advisory, accountancy firms and Private Equity houses.

ACABL is unregulated.

Arbuthnot Specialist Finance Limited ("ASFL")
ASFL is a provider of short-term funding loans in the unregulated specialist property market, including Bridging and Development Loans. ASFL's first customer loan was approved in Q1 2019.

ASFL provides a full range of property finance solutions including purchase, refinance, light and heavy refurbishment and construction finance. Through ASFL's collaborative approach with clients and introducers, it offers tailored lending which can be structured and designed around clients' needs. The specialist lending services are delivered with all the attention of a private banking relationship alongside the ability to deliver within tight timescales with certainty of execution. Dedicated Relationship Managers and Underwriters with significant real estate experience support clients through the transaction and onto the next project.

ASFL is unregulated.

Asset Alliance Group Holdings Limited
AL's acquisition of the entire issued share capital of Asset Alliance Group Holdings Limited completed on 1 April 2021. The Asset Alliance Group operates through a number of trading subsidiaries including Asset Alliance Leasing Limited and Asset Alliance Ltd which are both regulated by the FCA.

Asset Alliance provides vehicle management, finance and related services, predominantly in the truck & trailer and bus & coach markets. Operating from five locations, it is the UK's leading independent end-to-end specialist in commercial vehicle financing and has over 4000 vehicles under management.

Principal risks

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies and in monitoring their application.

The principal risks inherent in the Group's business are reputational, macroeconomic and competitive environment, strategic, credit, market, liquidity, operational, cyber, conduct and, regulatory and capital.

Reputational

Reputational risk is the risk to the Group from a failure to meet reasonable stakeholder expectations as a result of any event, behaviour, action or inaction by ABG itself, its employees or those with whom it is associated. This includes the associated risk to earnings, capital or liquidity.

ABG seeks to ensure that all of it businesses act consistently with the seven corporate principles as laid out in the Annual Report and Accounts. This is achieved through a central Risk Management framework and supporting policies, the application of a three-lines of defence model across the Group and oversight by various committees. Employees are supported in training, studies and other ways and encouraged to live out the cultural values within the Group of integrity, energy and drive, respect, collaboration and empowerment. In applying the seven corporate principles, the risk of reputational damage is minimised as the Group serves its shareholders, customers and employees with integrity and high ethical standards.

Macroeconomic and competitive environment

The Group is exposed to indirect risks that may arise from the macroeconomic and competitive environment.

Russia Ukraine Conflict

On 24 February 2022 Russia initiated an invasion of neighbouring Ukraine. The global community reacted with a series of severe sanctions against Russia. As a global supplier of commodities the effects of the sanctions and war in the region is undetermined, however, it is likely to have a knock on effect to global economies and specifically European nations with a reliance on Russian exports. Global financial markets have reacted with falling stock markets along with significant rises in oil and gas prices. Inflation is expected to increase above previous expectations. The situation could have significant geopolitical implications, including economic, social and political repercussions on a number of regions that may impact the Group and its customers.

For the avoidance of doubt, we have no clients that have been included or mentioned in any of the Government sanctions, and we do not and will not work with individuals or entities that could reasonably be seen to be controlled by, under the influence of, or connected with the Russian regime.

Coronavirus

The COVID-19 pandemic continued to have a significant impact on all businesses around the world and the markets in which they operate in 2021. The pandemic has also increased uncertainty for the longer-term economic outlook, adding to existing uncertainties stemming from Brexit.

Uncertainty remains around the impact of possible future variants on both domestic and global economies. As in the prior year, the business continued to operate with staff working remotely, in line with Government guidelines, for much of 2021.

The global economic impact from COVID-19 has improved, with developed economies showing signs of recovery following the most recent wave due to the Omicron variant. The strength of further recovery depends crucially on the degree to which COVID-19 vaccines and treatments allow a return to pre-pandemic levels of economic activity.

Brexit
The Brexit transition period came to an end on 31 December 2020 and the EU and UK agreed the Trade and Cooperation Agreement on 24 December 2020. There is still some uncertainty around the long term consequences of Brexit. Following the closure of the Dubai office during the year, all the Group's income and expenditure is now based in the UK. The Group will continue to monitor the implications of Brexit on the wider economy as the future relationship with the EU develops.

Climate change
Climate change presents financial and reputational risks for the banking industry. The Board consider Climate change a material risk as per the Board approved risk appetite framework which provides a structured approach to risk taking within agreed boundaries. The assessment is proportional at present but will develop over time as the Group generates further resources and industry consensus emerges. The assessment is maintained by the Chief Risk Officer and has been informed by the Internal Capital Adequacy Assessment Process ("ICAAP") review and workshops for employees

Whilst it is difficult to assess how climate change will unfold, the Group is continually assessing various risk exposures. The UK has a legally binding target to cut its greenhouse gas emissions to "net-zero" by 2050. There is growing consensus that an orderly transition to a low-carbon economy will bring substantial adjustments to the global economy which will have financial implications while bringing risks and opportunities.

The risk assessment process has been integrated into existing risk frameworks and will be governed through the various risk governance structures including review and recommendations by the Arbuthnot Latham Risk Committee. Arbuthnot Latham has been assessed against the Task Force on Climate-related Financial Disclosures' ("TCFD") recommended disclosures and where appropriate the FCA/PRA guidance as per the Supervisory Statements.

In accordance with the requirements of the PRA's Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', the Group has allocated responsibility for identifying and managing the risks from climate change to the relevant existing Senior Management Function. The Bank is continuously developing a suitable strategic approach to climate change and the unique challenges it poses.

The FCA have issued 'Climate Change and Green Finance: summary of responses and next steps'. In addition to the modelling of various scenarios and various governance reviews, the Group will continue to monitor requirements through the relationship with UK Finance.

Strategic risk
Strategic risk is the risk that the Group's ability to achieve its corporate and strategic objectives may be compromised. This risk is particularly 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 usually 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: overview
Credit risk is the risk of loss arising from a customer or counterparty failing to meet their financial obligations to the Group as and when they fall due. Credit risk generates the largest Pillar 1 regulatory capital requirement for the Group.

The Group has adopted the Standardised Approach to credit risk under the EU CRR and has nominated Moody's Investor Services as its external credit assessment institution ("ECAI").

Credit risk: loan books
The Group takes on exposure to credit risk. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Credit risk is managed through the Credit Committee of the banking subsidiary.

Credit Committee regularly reviews the credit risk profile of the Group, with a clear focus on performance against risk appetite statements and risk metrics. The Committee considered credit conditions during the year, and in particular the impact of the COVID-19 crisis on performance against both credit risk appetite and a range of key credit risk metrics.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to products, and one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. The limits are approved periodically by the Board of Directors and actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, and corporate and personal guarantees.

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the longer term effectiveness of central bank, government and other support measures.

COVID-19 has created an unprecedented challenge for ECL modelling, given the severity of economic shock and associated uncertainty for the future economic path coupled with the scale of government and central bank intervention and COVID-19 relief mechanisms that have altered the relationships between economic drivers and default.

The Group has attempted to leverage stress test modelling insights to inform ECL model refinements to enable reasonable estimates. Management review of modelling approaches and outcomes continues to inform any necessary adjustments to the ECL estimates through the form of in-model adjustments, based on expert judgement including the use of available information. Management considerations included the potential severity and duration of the economic shock, including the mitigating effects of government support actions, as well the potential trajectory of the subsequent recovery. The Group also considered differential impacts on asset classes, including pronouncements from regulatory bodies regarding IFRS 9 application in the context of COVID-19, notably on significant increase in credit risk ("SICR") identification.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral to secure advances, which is common practice. The principal collateral types for loans and advances include, but are not limited to:

- Charges over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Charges over other chattels; and
- Personal guarantees

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In order to minimise any potential credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Repossessed collateral, not readily convertible into cash, is made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness, or held as inventory where the Group intends to develop and sell in the future. Where excess funds are available after the debt has been repaid, they are available either for other secured lenders with lower priority or are returned to the customer.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The key inputs into the measurement of the ECL are:

- assessment of significant increase in credit risk;
- future economic scenarios;
- probability of default;
- loss given default; &
- exposure at default.

Credit risk: treasury assets
The Group has exposures to the Bank of England, Central Governments, multilateral development banks and a range of banks and building societies within its treasury portfolio. This includes bank deposits, Certificates of Deposit, money market instruments, floating rate notes, covered bonds and Government securities. These exposures arise due to the placement in the market of surplus client cash which is held under a banking relationship.

These treasury assets are held for liquidity purposes and are with highly rated counterparties. They have a minimum rating of credit step quality 2 or higher (as mapped from Moody's credit rating and using mapping tables published by the Regulator).

Policy limits and approved counterparties are formally approved by the Board annually. Counterparty exposures are monitored against limits by the Treasury and Finance departments on a daily basis.

Concentration risk
Management assesses the potential concentration risk from a number of areas including:
- product concentration;
- geographical concentration;
- sector concentration; &
- single name concentration.

Due to the significant collateral held against the loan book, the Directors do not consider there to be a potential material exposure arising from concentration risk.

Market risk
Market risk arises in relation to movements in interest rates, currencies, property 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 changes in interest rates.

The Group is exposed to changes in the market value of its properties. The current carrying value of Investment Property is £6.6m and properties classified as inventory are carried at £87.1m. Any changes in the market value of the property will be accounted for in the Income Statement for the Investment Property and could also impact the carrying value of inventory, which is at the lower of cost and net realisable value. As a result, it could have a significant impact on the profit or loss of the Group.

Interest rate risk
Interest rate risk is the potential adverse impact on the Group's future cash flows from changes in interest rates, and arises from the differing interest rate risk characteristics of the Group's assets and liabilities. In particular, fixed rate savings and borrowing products expose the Group to the risk that a change in interest rates could cause either a reduction in interest income or an increase in interest expense relative to variable rate interest flows.

The Group seeks to "match" interest rate risk on either side of the Statement of Financial Position. However, this is not a perfect match and interest rate risk is present in:

- Money market transactions of a fixed rate nature;
- fixed rate loans;
- fixed rate savings accounts; &
- floating rate products dependent on when they re-price at a future date.

Interest rate risk is measured throughout the maturity bandings of the book on a parallel shift scenario for a 200 basis points movement. Interest rate risk is managed to limit value at risk to be less than £0.5m. The current position of the balance sheet is such that it results in an adverse impact on the economic value of equity of £0.3m (2020: favourable impact of £2.4m) for a positive 200bps shift and a favourable impact of £37k (2020: adverse impact of £0.1m) for a negative 200bps movement capped at negative 0.25%.

Securitisation risk
The Group does not invest in, originate or sponsor any securitisation transactions. Therefore, the Board has concluded that securitisation risk is not applicable to the Group.

Liquidity risk
Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due, or can only secure such resources at excessive cost.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The liquidity requirements of the Group are met through withdrawing funds from its Bank of England Reserve Account to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Group has formal governance structures in place to manage and mitigate liquidity risk on a day to day basis. The Board of AL sets and approves the liquidity risk management strategy. The Assets and Liabilities Committee ("ALCO"), comprising senior executives of the Group, monitors liquidity risk. Key liquidity risk management information is reported by the finance teams and monitored by the AL Chief Executive Officer, Finance Director and Deputy CEO on a daily basis. The ALCO meets monthly and reviews liquidity risk against set thresholds and risk indicators including early warning indicators, liquidity risk tolerance levels and Internal Liquidity Adequacy Assessment Process ("ILAAP") metrics.

The PRA requires the Board to ensure that the Group has adequate levels of liquidity resources and a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks. The Group maintains deposits placed at the Bank of England and highly liquid unencumbered assets that can be called upon to create sufficient liquidity to meet liabilities on demand, particularly in a period of liquidity stress.

AL has a Board approved ILAAP and maintains liquidity buffers in excess of the minimum requirements. The ILAAP is embedded in the risk management framework of the Group and is subject to ongoing updates and revisions when necessary. At a minimum, the ILAAP is updated annually. The Liquidity Coverage Ratio ("LCR") regime has applied to the Group from 1 October 2015, requiring management of net 30 day cash outflows as a proportion of high quality liquid assets. The LCR has exceeded the regulatory minimum of 100% throughout the year.

The Group is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw-downs. The Group maintains significant cash resources to meet all of these needs as they fall due. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates.

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

In line with further guidance issued by the Regulator, the Bank has continued to focus on ensuring that the design of systems and operational plans are robust to maintain operational resilience in the face of unexpected incidents. During 2021 the Bank continued to review these plans and undertook tests to ensure backup and recovery processes were effective even when working in a hybrid working model.

During the year the FCA, PRA and BoE published their final policy papers on building operational resilience. The Group is on track to comply with the initial requirements prior to the implementation date of 31 March 2022.

The Group has adopted the Basic Indicator Approach for calculating the Pillar 1 capital requirements for operational risk.

Cyber risk
Cyber risk is an increasing risk for the Group within its operational processes. It 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 plan.

Conduct risk
As a financial services provider we face conduct risk, including selling products to customers which do not meet their needs, failing to deal with clients' complaints effectively, not meeting clients' expectations, and exhibiting behaviours which do not meet market or regulatory standards.
The Group adopts a low risk appetite for any unfair customer outcomes. It maintains clear compliance guidelines and provides ongoing training to all employees. Periodic spot checks, compliance monitoring and internal audits are performed to ensure these guidelines are followed. The Group also has insurance policies in place to provide some cover for any claims that may arise.

Regulatory and capital risk

Regulatory and capital risk includes the risk that the Group will have insufficient capital resources to support the business and/or does not comply with regulatory requirements. The Group adopts a conservative approach to managing its capital. The Board of AL approves an 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.

Statement of Risk Appetite

Introduction

Arbuthnot Banking Group has benefited from continuity of management over a long period of time. The executive team share a philosophy of management which emphasises prudence, stability and a long-term approach to the creation of shareholder value.

The Group conducts its business in accordance with its Corporate Philosophy, which is reproduced annually in the Report and Accounts as shown below:

1. Arbuthnot serves its **shareholders**, its **customers** and its **employees** with **integrity** and **high ethical standards**. This is demonstrated in a **progressive dividend** policy, in **fair pricing** and in **pay for performance**.
2. Arbuthnot attaches great importance to **good relations** with customers and business partners, and treating them **fairly and promptly**. Arbuthnot believes in **reciprocity**.
3. Arbuthnot is **independent, and profit and growth oriented** while maintaining a **controlled risk profile**.
4. Arbuthnot's business is conducted in an **innovative, flexible** and **entrepreneurial** manner, with an **opportunistic** and **counter-cyclical** attitude.
5. Arbuthnot's approach is based on **diversification** to spread the risk, a **long-term view** to further growth, **empowerment of management** and a culture of **rewards for achievements** to engender loyalty.
6. Arbuthnot does not sacrifice **long term prospects** for short term gains – nor sacrifice **stability** for quick profits, and it will never put the whole company at **risk**.
7. Ultimately, the success of Arbuthnot depends on the **teamwork, commitment**, and **performance** of its employees, combined with the **determination** to win.

In formulating and applying this philosophy the Board has drawn on the experience of the Chairman and other senior bankers currently and formerly on the Board regarding the risks to small banks and how they can be managed to ensure long-term stability. The key elements involved in applying this philosophy may be summarised as:

- maintain a diversified portfolio of businesses to achieve a balance of risk in all phases of the cycle;
- maintain a strong balance sheet, placing a particular emphasis on liquidity and security of funding; &
- maintain a conservative risk profile, which includes careful lending.

To achieve this the Group has maintained a level of deposits significantly greater than was necessary to finance its lending. In this way the Group has sacrificed profits each year to ensure stability.

Overall Risk Appetite Statement

The business plan is prepared on the basis that the Group takes a balanced view towards risk and return. The business plan includes a number of lines of business within the trading subsidiary. The planned growth in the Group over the medium term is well spread across these business lines. The Board will approve the risk appetite statement and will review the appropriateness of the risk appetite at least annually.

ABG generally has a low-risk appetite fully aligned with the scale and nature of the business model. The Group is exposed to liquidity, credit and market risks as a consequence of its activities and the Group chooses to accept these risks subject to the constraints and framework established in this risk appetite statement. The Risk Appetite Statement is for ABG to:

- Achieve its stated business objectives as outlined in the Board approved business plan;

- Maintain a comprehensive credit risk management framework focused on UK consumer finance, SME and High Net Worth secured lending;
- Maintain acceptable levels of interest rate risk exposure;
- Invest surplus deposits with highly rated counterparties or deposit within the Bank of England Reserve Account;
- Maintain robust capital and liquidity levels under "normal" and "stressed" conditions;
- Manage balance sheet and market risks to ensure minimal earnings volatility;
- Operate with low tolerances for Operational and Compliance risk exposures by ensuring that staff are properly trained, procedures are documented and supervision is in place to ensure that the controls continue to operate effectively;
- Ensure full compliance with the spirit (and letter) of all legal and regulatory requirements;
- Never allocate capital to an exposure such that any resultant losses could reduce the Group's capital to a level of insolvency (never "bet the shop").

AL has a clear policy regarding credit and liquidity which is set out in a policy document approved by the Board. These policies deal with all relevant parameters with regard to business quality, limits and procedures, and specify that any departure from the approved policy may only be made with the approval of the Board or an executive or group of executives to whom the Board delegates such authority. The Risk appetite of the individual Bank Board and the overall Group for the financial risks (both balance sheet and earnings) can be further articulated by way of the annual budget and three year plan. This shows the lending and proportion of lending in each asset class that the bank is prepared to undertake in the next three years. This is approved by the AL and Group Board.

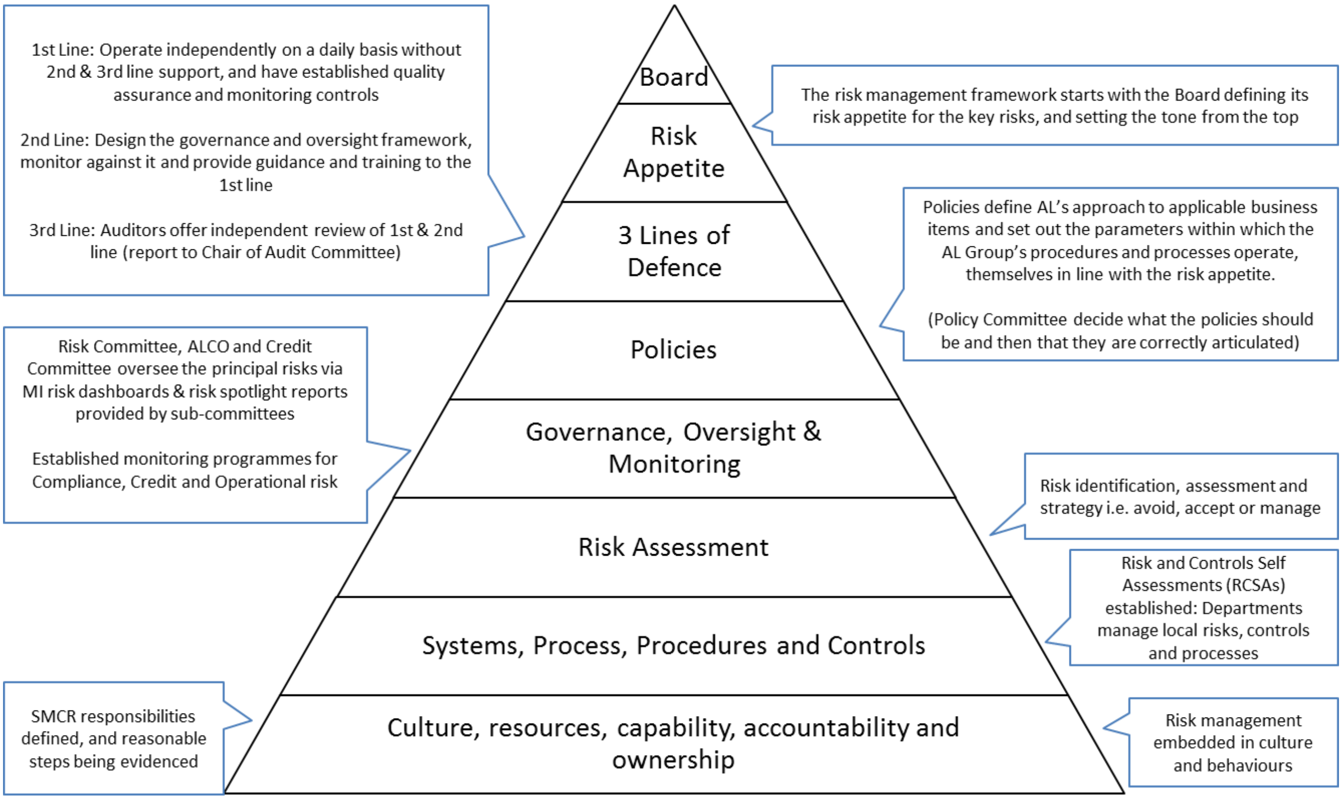
AL Risk Management Policy

The Risk Management Policy outlines the risk management framework for AL and its subsidiaries.

AL Risk Management Framework

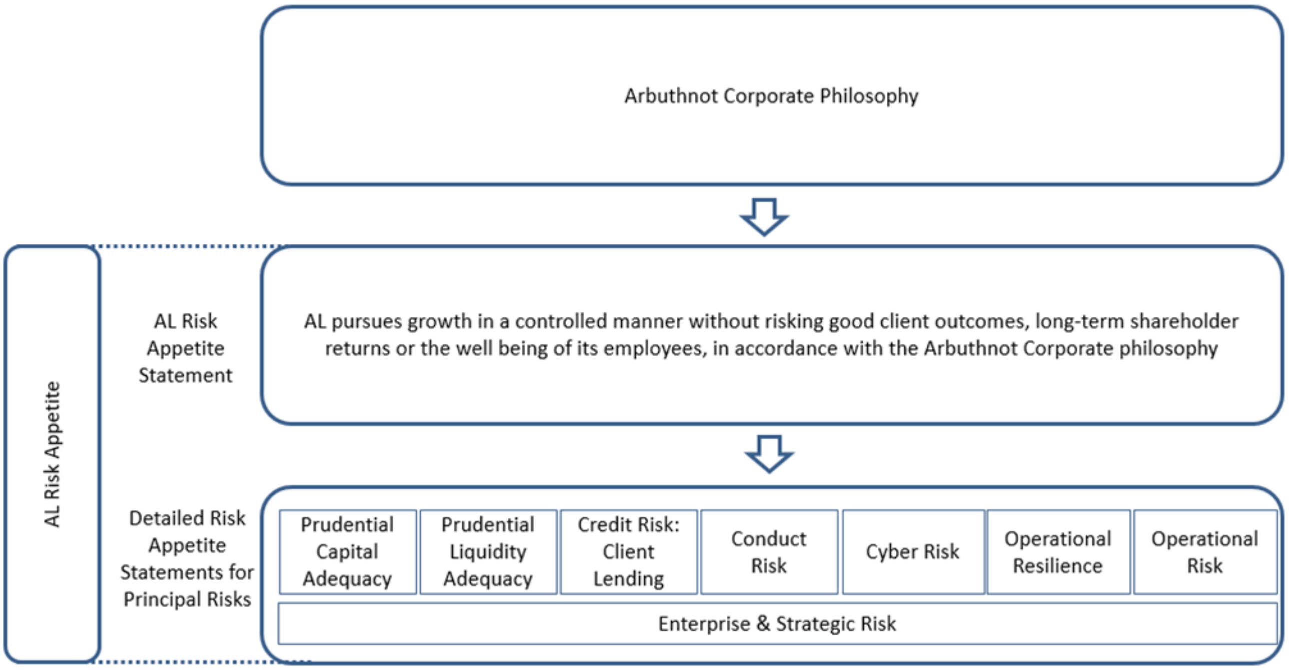
The Risk Management Framework diagram below shows a framework for the robust, consistent and disciplined management of risk with the aim of facilitating the achievement of the organisation's corporate strategy and strategic objectives.

The Risk Management framework ensures clear accountability and coverage across the organisation for all material risk categories.



AL Risk Appetite Statement

The Risk Appetite Statement is a Board-approved document describing the aggregate types and extent of risk the organisation is willing to assume or wishes to avoid, to achieve its strategic objectives and delivering its business plan in both normal and stressed conditions. The AL Group risk appetite reflects the Arbuthnot corporate philosophy.



Supporting the overarching Risk appetite statement is the AL Risk Appetite Framework. This details qualitative and quantitative risk appetite statements, and qualitative risk tolerance statements, both established against the bank's Principle Risks and underlying risk hierarchy.

Risk Appetite Statements: Principal Risks

Prudential Risk: Capital Adequacy Risk

Risk appetite	
Definition	Capital adequacy risk is the risk that the Bank's capital will fall below its base capital requirement (regulatory and/ or statutory). The key characteristic of capital is that it represents the Bank's ability to absorb losses.
Risk Appetite Overview	<u>Capital stability</u> • Sufficient capital to be in place to ensure that the Bank remains solvent in all reasonable scenarios, after mitigating actions. • Capital resources to be of a high quality. • Balance sheet and market risks managed to ensure minimal earnings volatility. <u>Detect and Respond</u> • Robust reporting and forecasting processes maintained. • Suitable governance arrangements maintained and regularly tested on how AL respond to a stress situation both in survival and rebuild phases. <u>Recovery</u> • Capital recovery options documented.

How we manage the risk	
Oversight Committee	ALCO

- The risk appetite statement provides guidance for accepted levels of capital risk that arise as part of day to day business activities
- The ICAAP documents the approach to managing capital adequacy risk. The AL Board approves the ICAAP at least annually, or more frequently, if changes in the business, strategy, nature or scale of AL's activities or operational environment suggest that the current level of capital resources are no longer adequate.
- ALCO, Risk Committee and AL Board oversight of capital.
- The Board approves AL's Recovery Plan and Incident Management Plan that detail the governance arrangements and options available to AL to recover financial strength, in terms of capital, liquidity and business model viability/profitability, should the Bank come under severe stress.

First Line	**Second Line**
The AL Finance Director and Deputy CEO has the SMF accountability for capital and liquidity.	The Chief Risk Officer has on-going SMF accountability for maintaining the ICAAP documents.

Prudential Risk: Liquidity Adequacy Risk

Risk appetite	
Definition	Liquidity adequacy risk is the risk that the Bank will not be able to pay its liabilities as they fall due. At AL, this risk is most likely to be associated with its depositors and/or a potential run on the bank. The PRA's approach to liquidity supervision is based on the principle that a firm must have adequate levels of liquidity resources and a prudent funding profile, and that it comprehensively manages and controls liquidity and funding risks.
Risk Appetite Overview	<u>Survival Horizon</u> • Adequate liquidity resources held to withstand all reasonable idiosyncratic and market risks for up to 90 days. <u>Funding Risk Appetite</u> • Stable funding profile with diversification across clients, products, channels, and timeframes. <u>Funding Stability</u> • AL funded by client retail deposits and the BoE TFSME with no reliance on intra-group deposits from ABG or the wholesale markets. Where appropriate and economic, use may be made of wholesale bank funding or other schemes offered by the Bank of England. • Time and Notice deposits maturity terms enforced in both normal and stressed conditions. • Concentration risk on large depositors mitigated through limits on quantum of lending to clients and quantum held as liquidity resources. • Proportion of call deposits used to fund client lending monitored and subject to limits. • Client lending supported by quality collateral on conservative loan to values. All lending agreements to contain a right to cancel clause for undrawn approved loans. <u>Detect and Respond</u> • Robust reporting and forecasting processes maintained. • Suitable governance arrangements maintained and regularly tested on how AL respond to a stress situation both in survival and rebuild phases. <u>Recovery</u> • Surplus liquidity resources to be of a high quality with the majority of surplus funds kept at the BoE cash reserve account. The remainder to be subject to conservative Board approved counterparty limits. • Bank of England facilities maintained and regularly tested to enable the raising of cash and liquidity, particularly in periods of stress, through pledging qualifying assets. • Liquidity recovery options documented.

<table>
<tr><th colspan="2">How we manage the risk</th></tr>
<tr><td>Oversight Committee</td><td>ALCO</td></tr>
<tr><td colspan="2">
• The risk appetite statement provides guidance for accepted levels of risk that arises as part of day to day business activities
• The ILAAP documents the approach to managing liquidity adequacy risk. The AL Board approves the ILAAP at least annually, or more frequently, if changes in the business, strategy, nature or scale of AL's activities or operational environment suggest that the current level of capital resources are no longer adequate.
• Daily monitoring in place.
• ALCO, Risk Committee and AL Board oversight liquidity.
• The Board approved AL Recovery Plan and the Incident Management Plan detail the governance arrangements and options available to AL to recover financial strength, in terms of capital, liquidity and business model viability/profitability, should the Bank come under severe stress.
</td></tr>
<tr><th>First Line</th><th>Second Line</th></tr>
<tr><td>The Deputy CEO and AL Finance Director has the SMF accountability for capital and liquidity.</td><td>The Chief Risk Officer has on-going SMF accountability for maintaining the ILAAP documents.</td></tr>
</table>

Credit Risk: Client Lending

Risk appetite	
Definition	Credit Risk is the risk that a counterparty (borrower) will default on their obligations.
Risk Appetite Overview	• AL has a low tolerance for Credit Risk. AL lending is summarised as complex lending to straightforward clients, or straightforward lending to complex clients. • AL has a low tolerance to lend where there is a potential reputational risk. • AL has a low risk appetite for Loss Given Default (LGD), and a low (but relatively higher) appetite for Probability of Default (PD). • AL has limited appetite for lending transactions that are within policy/appetite but are at the upper end across a number of aspects, unless suitable mitigants are in place. • AL has appetite for up to 90% of its credit risk exposure to be secured against UK residential property. Although would normally expect the risk profile to be significantly lower than this level and be managed through approved concentration trigger points. • AL has limited appetite for unsecured lending other than where repayment is anticipated from an assured/highly probable cash inflow (rather than from speculative future profitability). • AL has appetite to lend to overseas borrowers where underlying documentation and security is subject to English law. **New Business** • All new and renewal lending risk assessed on a case-by-case basis, taking into account the overall clients' net worth, collateral offered and loan affordability / serviceability and ultimate repayment in both normal and stressed conditions. • AL has appetite for interest only loans provided there is a clear source of repayment at the end of term including through refinance or sale. • Expected credit losses will differ by business unit according to the type of lending, client base and defined credit risk appetite. Expected losses at a consolidated, business unit and sector level will be monitored, and subject to limits. • Pricing determined with reference to the expected credit losses, as well as the type of lending, funding costs and expected client profitability across a range of products in the short and longer term. • Facility duration differ by business unit according to the client base. Normally facilities granted out to a maximum of 5 years, subject to an annual review. Facilities on Regulated Mortgage Contracts ("RMC") granted up to 10/15 years and BBLs /CBILs granted for longer terms as per government guidelines. **Exception to Policy** • AL has appetite for "exception to policy" lending only where suitable mitigants are in place. **Security** • Client lending supported by quality collateral on conservative loan to values.

- The majority of the collateral comprised of first ranking charges over cash, property or other high-quality assets.
- Pledged property to be located in the UK, with the charge registered with the land registry. AL will take overseas property as collateral.
- Large exposures, net of regulatory eligible collateral monitored and subject to limits with no single connection client exceeding regulatory limits.

Detect and Respond

- Diversity of lending (by Business unit / Sector / Asset / Product) monitored, and subject to limits in line with the approved Concentration Risk trigger points.
- Lending agreements subject to an annual credit review as a minimum in all business units except RAF. (The review purpose is to identify any increase in the underlying credit risk and ensure that AL act as responsible lenders.)
- Loans in default identified through automated arrears and expired limits monitoring, and relationship management activity including annual credit reviews.

Lending recovery

- AL will always seek to protect the shareholders in accordance with the terms of lending arrangements.
- All recovery actions in compliance with regulatory and legal requirements. Including the requirements to treat client fairly and consider the needs of vulnerable customers.
- In certain circumstances, AL may use forbearance measures to assist borrowers who are experiencing significant financial stress. AL seeks to ensure a fair outcome for both client and AL.
- Loans will be written off (either partially or in full) where there is no realistic prospect of recovery in accordance with appropriate accounting standards and having exhausted all appropriate recovery measures.

How we manage the risk

Oversight Committee	Credit Committee

- The risk appetite statement provides guidance on the acceptable level of risk arising from day-to-day business activities.
- The Credit department and Subsidiaries have lending mandates that enable credit underwriting within pre-defined limits and within the Bank’s appetite. Any other lending, contingent liabilities or any other Credit Risk undertaken by the Bank requires Credit Committee approval, with significant exposures additionally requiring extraordinary Credit Committee members’ approval.
- The Credit Policy, Credit Risk Management Policy, and Credit Committee Terms of Reference document the management of credit risk.
- The Credit Committee, Risk Committee and AL Board oversight Credit Risk, including the regular monitoring of the credit portfolio.
-

First Line	Second Line
The Deputy CEO has the SMF accountability for client lending.	The Chief Credit Officer has oversight responsibility.

Conduct Risk

Risk Category	Product Governance
Definition	AL defines Conduct Risk as the risk that detriment is caused to our clients or the market because of inappropriate behaviour or judgement in conducting our business activities.
Risk Appetite Overview	• AL has a low appetite for conduct risks arising from the types of products and services it offers, the clients they are offered to, the distribution channels and how client transactions are executed. In addition, from the way post-sales activities throughout the lifetime of the relationship with the client are conducted. • Maintaining a robust product governance framework is key to good customer outcomes, helping to improve customer retention and satisfaction. • Product Governance related controls are designed to help AL identify, respond to and manage any conduct risks that arise to prevent customer harm during all stages of the product and service lifecycle, from design to review.

How we manage this risk

Oversight Committee	Conduct Risk Committee

- The risk appetite statement provides guidance on the acceptable level of risk arising from day-to-day business activities.
- The Conduct Risk Manual and supporting policies provide further guidance on mitigating Conduct risk. In addition, the Compliance department provides clear guidance to the first line.
- All staff receive training that is proportionate to their role.
- To mitigate risk further, periodic spot checks (FLOD and SLOD) and internal audits ensure the embedding of guidelines.
- AL has professional indemnity insurance in place to cover claims that may arise.
- Conduct Risk Committee, Risk Committee and AL Board oversee conduct risk.
- The Product Governance Committee oversees products and services to ensure that they remain suitable for the needs of our client base. This includes new products and services, and the periodic review of existing products and services.
- The CASS Committee oversees and monitors the firm's position in relation to key CASS risks and provides assurance to the Audit Committee and the Board that CASS risks are being appropriately managed.
- The AML Committee oversees the higher risk factors in relation to money laundering and terrorism financing and the AL Group's adherence to money laundering obligations.

First Line	Second Line
The Deputy CEO and COO have the SMF accountability for conduct risk.	The Head of Compliance and MLRO has oversight responsibility.

Operational Risk: Cyber Risk

Risk appetite	
Definition	Cyber Risk is the risk of financial loss, disruption/damage to the reputation of the Bank from a failure of and attacks on its information technology systems, data and infrastructure. Cyber risk can be considered as: • The risk of unauthorised access to AL data or systems (data & network security risk); and • The risk of inadequate IT systems (IT and operational resilience). Note: Information Security Risk includes Cyber Risk and elements of Operational Risk i.e. physical security
Risk Appetite Overview	AL has a low tolerance for Cyber risk, including the risk of unauthorised access to its data or systems, and the risk arising from inadequate IT systems. **Identify** • The cyber risk framework seeks to maintain the risk profile at the agreed target level, with a focus on continual enhancement. **Protect** • AL has a low appetite for unauthorised access via internet, and remote and mobile access pathways. Controls to be validated annually by external penetration tests. • All staff to receive regular cyber training to raise awareness and reinforce responsibilities. • A "least permissions" principle adopted to ensure only appropriate systems and IT permissions in place. • AL has a low appetite for harmful software or files (malware) being placed into the IT infrastructure. Effective controls are in place and tested at least annually. • Systems vulnerabilities to be identified and eliminated on a timely basis. Patches to be applied in a timely manner in accordance with policy. • Data to be secure, with "encryption at rest" in place where feasible. • Systems to be securely configured, of sufficient quality, available and supported by capable vendors. • IT change management operate with robust governance arrangements. Systems changes implemented in line with established testing protocols. ***When Protection Fails*** **Detect** • Monitoring in place to detect events indicating compromise. • Threat intelligence deployed to identify the capabilities of current and emerging real-world threats against our ability to protect against them. **Respond** • Suitable Incident Management arrangements maintained and validated through regular testing.

	• Stakeholder communications plans across a range of plausible scenarios are pre-drafted and validated through testing. **Recover** • Suitable Business Continuity and Disaster Recovery arrangements maintained and validated through regular testing.	
How we manage the risk		
Oversight Committee		Risk Committee, Information Security Group, Operational Risk Committee
• The risk appetite statement provides guidance for accepted levels of risk that arise as part of day-to-day business activities. • IT policy framework provides further guidance on mitigating Cyber risk. • Risk Committee and AL Board have oversight of cyber risk. The Information Security Group oversees Data and Network Security whilst the Operations and Operational Risk Committee oversees IT resilience. • The Risk Committee and Board approve the Cyber strategy on an annual basis. This strategy draws on the external assessment of the current risk profile, describes the "plus 12 months" target risk profile and articulates the steps AL is taking to improve resilience. • The Board approved Incident Management Plan details the governance arrangements to respond to an incidence.		
First Line		**Second Line**
The COO has the SMF accountability for cyber risk.		The Head of Operational Risk has oversight responsibility, supported by external specialists.

Operational Resilience

Risk Appetite	
Definition	Operational Resilience is the ability of firms and the financial system to absorb and adapt to shocks, rather than contribute to them
Risk Category	Business Disruption and System Failure (Operational Resilience)
Risk Appetite Overview	• Operational Resilience risk is predominantly considered and managed within the 'Business disruption and system failure' risk as defined in the Bank's operational risk hierarchy. • AL adopts a resilient operating model with standards in place for internal processes and external suppliers. **When controls fail:** • AL adopts a risk-based approach to systems and controls and accepts that desired outcomes are not always possible. • AL have approved Service Recovery Outcomes for each key business service. These are supported by effective incident management, disaster recovery and business continuity plans designed to respond to incidents and recover services (Plan A). • AL have approved impact tolerances before further escalation actions are taken (Plan B) following the failure to restore services using Plan A. Actions will include the Crisis and Management

<table>
<tr><td></td><td colspan="2">Committee reporting to the Board.</td></tr>
<tr><td colspan="3">How we manage the risk</td></tr>
<tr><td colspan="2">Oversight Committee</td><td>Operations and Operational Risk Committee</td></tr>
<tr><td colspan="3">• The risk appetite statements provide guidance for accepted levels of risk that arise as part of day-to-day business activities.
• Operational Risk Committee and Risk Committee oversee operational resilience.
• The AL’s operational resilience framework defines the:
➢ Key business services
➢ The resilient design of the operating model including the supplier management framework, IT policies and operational continuity plans
➢ The incident response plan, the backup and recovery plans and the testing and monitoring arrangements
➢ The governance arrangements including MI.</td></tr>
<tr><td colspan="2">First Line</td><td>Second Line</td></tr>
<tr><td colspan="2">• The COO has the SMF accountability for operational resilience</td><td>• The Head of Operational Risk has oversight responsibility.</td></tr>
</table>

Operational Risk

<table>
<tr><td colspan="2">Risk Appetite</td></tr>
<tr><td>Definition</td><td>• Operational risk is the risk that the Company is exposed to financial and non-financial losses from conducting its business. It is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events.
• Operational risk can be considered within the following Basel risk categories:
➢ Employment practices; Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.
➢ Execution, delivery, and process management; Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.
➢ Damage to physical assets; Losses arising from loss or damage to physical assets from natural disaster or other events.
➢ Data Protection; Losses arising from a failure to securely and appropriately manage bank and client data.</td></tr>
<tr><td>Risk Category</td><td>Employment Practices</td></tr>
<tr><td>Risk Appetite Overview</td><td>• AL strives to provide a working environment where individuals are safe, valued for their contribution and fairly rewarded based on good performance and behavior.
• Risk culture is part of, and aligns to, the overall culture values (integrity, respect, empowerment, energy and drive, and collaboration). It actively promotes these values when managing and</td></tr>
</table>

	responding to risk issues on a day-to-day basis. AL has no appetite for staff behavior that does not promote an open, honest and respectful working environment. • AL seeks to fulfil roles with the most suitable candidates who will positively contribute to the operation of the Bank. AL has no appetite in recruiting staff that are not sufficiently vetted and aspires to recruit and maintain a workplace that encourages diversity and inclusion. • The Bank has a low tolerance for high volumes of employees leaving voluntarily, and an equally low tolerance for inadequate succession planning of key roles.
Risk Category	Execution, Delivery, and Process Management
Risk Appetite Overview	• AL has a low appetite for Operational risk losses caused by operational and control weaknesses or errors. • AL have a low appetite for client detriment and Bank disruption resulting from AL failing to meet defined client service levels agreements for key business services. • AL have a contingent operational resiliency threshold of £5m of operational losses arising from systemic failure within the organisation. • AL has no appetite for repeated control failures to occur. Appropriate root cause analysis and lessons learnt processes should be in place to prevent. ***When controls fail*** • AL adopts a risk-based approach to systems and controls and accepts that desired outcomes are not always possible.
Risk Category	Damage to Physical Assets
Risk Appetite Overview	• AL has a low appetite for natural disasters that cause key premises to become inaccessible and damaged leading to losses to the Bank. Whilst acknowledging it is not completely in the Bank's control, the potential impact on the Bank should be mitigated by forward thinking measures. • AL has no appetite for its staff, clients or third parties being subjected to harm from an external unauthorised individual on AL premises. • AL has no appetite to operate unsafe workplace environments.
Risk Category	Data Protection
Risk Appetite Overview	• AL has a low appetite for data to not be processed with appropriate safeguarding measures in place. AL expects that a risk-based approach is applied in order to identify data that is 'Sensitive' in nature, with appropriate safeguarding controls being applied. • Safeguarding controls should consider controls to prevent the risk of data loss through unauthorised or inappropriate access, loss of data through transfers and ensuring appropriate data storage is in place including deletion. • AL has no appetite for personal data breaches that are likely to result in a risk to the rights and freedoms of the data subjects involved. It is expected that a process is in place that empowers all staff, and where relevant its suppliers, to report instances where data breaches have occurred.

How we manage the risk	
Risk Category	Committee
Employment practices and workplace safety	Operations and Operational Risk Committee

Execution, delivery, and process management Damage to Physical Assets Business Disruption and System Failures	
Data Protection	Data Protection Committee

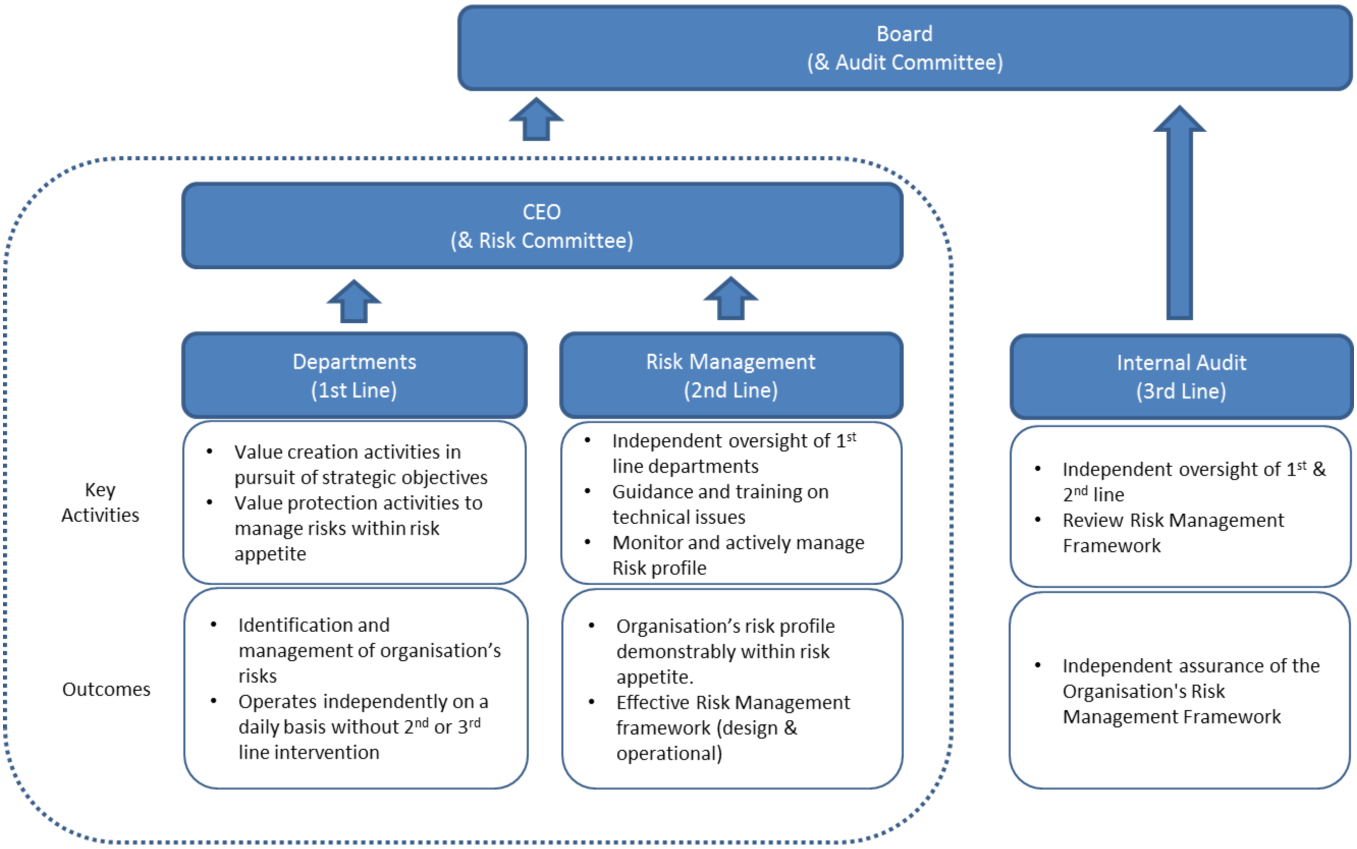
- The risk appetite statements provide guidance for accepted levels of risk that arise as part of day to day business activities.
- Each department is responsible for managing their operational risks and are required to undertake an annual Risk & Control Self-Assessment.
- Periodic spot checks (FLOD and SLOD) and internal audits are performed to ensure guidelines are fully embedded and controls are effective.
- AL has insurance policies in place to minimise losses arising from any claims from, for example, external fraud.
- Losses greater than £15k on individual events are escalated to the CEO.

First Line	Second Line
• The Deputy CEO and COO have the SMF accountability for operational risk.	• The Head of Operational Risk has oversight responsibility.

Risk Management

AL Three Lines of Defence Model

AL operates a 3 Lines of Defence model, in line with current regulatory expectations.



The first line is responsible for identifying and managing the organisation's risks. It operates independently on a daily basis without second line or third line intervention. First line departments operate risk monitoring and quality assurance mechanisms to measure and manage performance.

The Risk Management function (second line) is responsible for providing independent oversight and challenge of first line risk-taking, as well as guidance and training on technical issues.

Internal audit (third line) provides independent assurance over the AL Group's governance, risk management and internal control arrangements.

Key Regulatory Metrics

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Key Metrics		Dec* 2021	Dec* 2020	Dec* 2019
	Available capital (£'000)			
1	Common Equity Tier 1 ("CET 1")	176,235	180,586	177,644
1a	Fully loaded ECL accounting model CET 1	174,635	178,630	176,535
2	Tier 1	176,235	180,586	177,644
2a	Fully loaded accounting model Tier 1	174,635	178,630	176,535
3	Total capital	213,007	218,242	214,481
3a	Fully loaded ECL accounting model total capital	211,407	216,286	213,372
	Risk weighted assets (£'000)			
4	Total risk weighted assets ("RWA")	1,427,724	1,169,533	1,237,889
	Risk-based capital ratios as a percentage of RWA (%)			
5	CET 1 ratio	12.3%	15.4%	14.4%
5a	Fully loaded ECL accounting model CET 1 ratio	12.2%	15.3%	14.3%
6	Tier 1 ratio	12.3%	15.4%	14.4%
6a	Fully loaded ECL accounting model Tier 1 ratio	12.2%	15.3%	14.3%
7	Total capital ratio	14.9%	18.7%	17.3%
7a	Fully loaded ECL accounting model total capital ratio	14.8%	18.5%	17.2%
	Additional CET1 buffer requirements as a percentage of RWA (%)			
8	Capital conservation buffer requirement (2.5% from 2019)	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement	0.02%	0.01%	0.88%
10	Bank D-SIB additional requirements	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (row 8 + row 9 + row 10)	2.52%	2.51%	3.4%
	Basel III Leverage Ratio			
12	Total Basel III leverage ratio measure	3,409,123	2,882,477	2,598,739
13	Basel III leverage ratio (%) (row 2/row 12)	5.2%	6.3%	6.8%
13a	Fully loaded ECL accounting model Basel III leverage ratio (row 2A/row 12)	5.1%	6.2%	6.8%
	Liquidity Coverage Ratio			
14	Total HQLA	897,493	743,013	552,278
15	Total net cash outflow	487,009	313,857	190,220
16	LCR ratio (%)	184.3%	236.7%	290.3%
	Net Stable Funding Ratio			
17	Total available stable funding	2,389,237	1,978,030	1,921,266
18	Total required stable funding	1,794,905	1,518,660	1,511,253
19	NSFR ratio (%)	133.1%	130.2%	127.1%

* - Includes year end verified reserves.

The Financial Policy Committee ("FPC") announced an increase in the countercyclical capital buffer rate for all UK banks to 0.5%, effective June 2018 with a further increase to 1.0% effective November 2018.

As part of the Bank of England's measures to respond to the economic shock from COVID-19, the UK countercyclical capital buffer rate was reduced to 0% with binding effect from 11 March 2020.

At its December 2021 meeting the FPC increased the UK CCyB rate from 0% to 1%. This rate will come into effect from 13 December 2022 in line with the usual 12-month implementation period. In December 2021 the FPC reported that if the UK economic recovery proceeds broadly in line with the MPC's central projections in the November Monetary Policy Report, and absent a material change in the outlook for UK financial stability, the FPC would expect to increase the rate further to 2% in Q2 2022. That subsequent increase would be expected to take effect after the usual 12-month implementation period.

The Capital Conservation Buffer was phased in until 2019 and is now fully phased in at 2.5% of Total Risk Exposure.

The Group's Total Capital Requirement ("TCR"), as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement. The current TCR of the Group is 8.69%.

Capital Resources

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The table below summarises the composition of regulatory capital for the Group as at 31 December 2021.

Capital Resources	Notes	2021 £000	2020 £000
Common equity Tier 1 Capital			
Share capital		154	154
Capital redemption reserve		19	19
Treasury shares		(1,299)	(1,299)
Retained earnings		201,026	207,839
IFRS 9 - Transitional add back		1,600	1,956
Fair value reserve		979	(12,690)
Deduction for goodwill		(5,202)	(5,202)
Deduction for other intangibles		(18,667)	(8,745)
Deduction for deferred tax asset that do not arise from temporary differences		(2,370)	(1,425)
Deduction for Prudent valuation		(5)	(21)
Common equity Tier 1 Capital resources		**176,235**	**180,586**
Tier 2 capital			
Debt Securities in issue	1	36,772	37,656
Total Tier 2 capital resources		**36,772**	**37,656**
Own Funds (sum of Tier 1 and Tier 2)		**213,007**	**218,242**

1. The subordinated debt was raised in order to increase the capital base of the Group:
   a) Euro subordinated loan notes: The subordinated loan notes were issued on 7 November 2005 and are denominated in Euros. The principal amount outstanding at 31 December 2021 was €15,000,000 (2020: €15,000,000). The notes carry interest at 3% 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.

   b) Subordinated loan notes: The subordinated loan notes were issued on 3 June 2019 and are denominated in Pound Sterling. The principal amount outstanding at 31 December 2021 was £25,000,000 (2020: £25,000,000). The notes carry interest at 7.75% over the three month LIBOR rate and are repayable at par in June 2029 unless redeemed or repurchased earlier by the Company.

Capital Resources

The table provides a reconciliation of total equity as reported within the Group's audited financial statements for 31 December 2021 and the Group's regulatory capital.

£'000s	
Total equity per consolidated balance sheet	**200,879**
IFRS9 transitional add back	1,600
Deductions from Common equity Tier 1 Capital	
Goodwill	(5,202)
Intangible assets	(18,667)
Deferred tax assets that rely on future profitability and do not arise from temporary differences	(2,370)
Prudent valuation adjustment	(5)
CET1 Capital	**176,235**
Tier 2 subordinated loans	36,772
Total regulatory capital	**213,007**

Capital Adequacy

In order to protect the solvency of the Group, internal capital is held to provide a cushion for unexpected losses. In assessing the adequacy of its capital, the Group considers its risk appetite, the material risks to which the Group is exposed and the appropriate management strategies for each of the Group's material risks, including whether or not capital provides an appropriate mitigant.

In accordance with the parameters set out in the PRA Rulebook, the ICAAP is embedded in the risk management framework of the Group. The ICAAP identifies and assesses the risks to the Group, considers how these risks can be mitigated and demonstrates that the Group has sufficient resources, after mitigating actions, to withstand all reasonable scenarios.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar 1 plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar 1 capital requirement for credit, market and operational risk as a starting point, and then considers whether each of the calculations delivers a sufficient amount of capital to cover risks to which the Group is, or could be, exposed. Where the Board considers that the Pillar 1 calculations do not adequately cover the risks, an additional Pillar 2A capital requirement is applied. The PRA will set a Pillar 2A capital requirement in light of the calculations included within the ICAAP. The Group's Total Capital Requirement, as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirement. The TCR of the Group at 31 December 2021 is 8.69%.

The ICAAP document will be updated at least annually, or more frequently if changes in the business, strategy, nature or scale of the Group's activities or operational environment suggest that the current level of capital resources are no longer adequate. The ICAAP brings together the management framework (i.e., the policies, procedures, strategies, and systems that the Group has implemented to identify, manage and mitigate its risks) and the financial disciplines of business planning and capital management.

Capital Adequacy

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The table below gives the linkages between the financial statements and the regulatory exposures:

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
ASSETS							
Cash and balances at central banks	814,692	814,692	814,692	-	-	-	-
Loans and advances to banks	73,444	73,444	73,444	-	-	-	-
Debt securities at amortised cost	301,052	301,052	301,052	-	-	-	-
Assets classified as held for sale	3,136	3,136	3,136	-	-	-	-
Derivative financial instruments	1,753	1,753	-	1,753	-	-	-
Loans and advances to customers	1,870,962	1,870,962	1,870,962	-	-	-	-
Current tax asset	-	-	-	-	-	-	-
Other assets	110,119	110,119	110,119	-	-	-	-
Financial investments	3,169	3,169	3,169	-	-	-	-
Deferred tax asset	2,562	2,562	192	-	-	-	2,370
Intangible assets	29,864	29,864	6,980	-	-	-	22,884
Property, plant and equipment	125,890	125,890	125,890	-	-	-	-
Right-of-use assets	15,674	15,674	15,674	-	-	-	-
Investment property	6,550	6,550	6,550	-	-	-	-
Total assets	**3,358,867**	**3,358,867**	**3,331,860**	**1,753**	**-**	**-**	**25,254**
LIABILITIES							
Deposits from banks	240,333	240,333	-	-	-	-	-
Derivative financial instruments	171	171	-	171	-	-	-
Deposits from customers	2,837,869	2,837,869	-	-	-	-	-
Current tax liability	413	413	-	-	-	-	-
Other liabilities	26,216	26,216	-	-	-	-	-
Lease liabilities	16,214	16,214	-	-	-	-	-
Debt securities in issue	36,772	36,772	-	-	-	-	-
Total liabilities	**3,157,988**	**3,157,988**	**-**	**171**	**-**	**-**	**-**

Capital Adequacy

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The following table shows an overview of the Risk Weighted Assets:

Overview of Risk Weighted Assets		a	b	c
		RWA		Minimum capital requirement
		31/12/21 £000	30/09/21 £000	31/12/21 £000
1	Credit risk (excluding counterparty credit risk)	**1,257,789**	**1,260,115**	**100,623**
2	Of which: the standardised approach	1,257,789	1,260,115	100,623
3	Of which: the foundation IRB (FIRB) approach	-	-	-
4	Of which: the advanced IRB (AIRB) approach	-	-	-
5	Of which: equity IRB under the simple risk-weighted approach or the IMA	-	-	-
6	Counterparty credit risk (CCR)	**2.911**	**2,617**	**233**
7	Of which: mark to market	1,222	1,166	98
8	Of which: original exposure	-	-	-
9	Of which: the standardised approach	-	-	-
10	Of which: internal model method (IMM)	-	-	-
11	Of which: risk exposure amount for contributions to the default fund of a CCP	-	-	-
12	Of which: CVA	1,689	1,451	135
13	Settlement risk	-	-	-
14	Securitisation exposures in the banking book (after the cap)	**-**	**-**	**-**
15	Of which: IRB approach	-	-	-
16	Of which: IRB supervisory formula approach (SFA)	-	-	-
17	Of which: internal assessment approach (IAA)	-	-	-
18	Of which: standardised approach	-	-	-
19	Market risk	**7,527**	**5,081**	**602**
20	Of which: the standardised approach	7,527	5,081	602
21	Of which: IMA	-	-	-
22	Large exposures	-	-	-
23	Operational risk	**159,498**	**159,498**	**12,760**
24	Of which: basic indicator approach	159,498	**159,498**	12,760
25	Of which: standardised approach	-	-	-
26	Of which: advanced measurement approach	-	-	-
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
28	Floor adjustment	-	-	-
29	**Total**	**1,427,724**	**1,427,310**	**114,218**

Impairment of financial assets: assets carried at amortised cost

The Group recognises loss allowances on an expected credit loss basis for all financial assets measured at amortised cost, including loans and advances, debt securities and loan commitments.

Credit loss allowances are measured as an amount equal to lifetime ECL, except for the following assets, for which they are measured as 12 month ECL:

- Financial assets determined to have a low credit risk at the reporting date. The assets to which the low credit risk exemption applies include cash and balances at central banks, loans and advances to banks and debt securities at amortised cost. These assets are all considered investment grade.
- Financial assets which have not experienced a significant increase in credit risk since their initial recognition.

Impairment model

The IFRS 9 impairment model adopts a three stage approach based on the extent of credit deterioration since origination:

- **Stage 1**: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk ("SICR") since origination and are not credit impaired. The ECL will be computed based on the probability of default events occurring over the next 12 months. Stage 1 includes the current performing loans (up to date and in arrears of less than 10 days) and those within Heightened Business Monitoring ("HBM"). Accounts requiring HBM are classified as a short-term deterioration in financial circumstances and are tightly monitored with additional proactive client engagement, but not deemed SICR.

- **Stage 2:** When a financial asset experiences a SICR subsequent to origination, but is not in default, it is considered to be in Stage 2. This requires the computation of ECL based on the probability of all possible default events occurring over the remaining life of the financial asset. Provisions are higher in this stage (except where the value of charge against the financial asset is sufficient to enable recovery in full) because of an increase in credit risk and the impact of a longer time horizon being considered (compared to 12 months in Stage 1).

Evidence that a financial asset has experienced a SICR includes the following considerations:

  - A loan is in arrears between 31 and 90 days; &
  - Forbearance action has been undertaken.

- **Stage 3:** Financial assets that are credit impaired are included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses. At each reporting date, the Group will assess whether financial assets carried at amortised cost are in default. A financial asset will be considered to be in default when an event(s) that has a detrimental impact on estimated future cash flows have occurred.

Evidence that a financial asset is within Stage 3 includes the following data:

  - A loan is in arrears in excess of 90 days;
  - Breach of terms of forbearance;
  - Recovery action is in hand; or

Credit Risk

- Bankruptcy proceedings or similar insolvency process of a client, or director of a company.

The credit risk of financial assets that become credit impaired are not expected to improve, beyond the extent that they are no longer considered to be credit impaired.

A borrower will move back into Stage 1 conditional upon both a minimum of six months' good account conduct and the improvement of the Client's situation to the extent that the credit risk has receded sufficiently and a full repayment of the loan, without recourse to the collateral, is likely.

Presentation of allowance for ECL in the statement of financial position
For financial assets measured at amortised cost, these are presented as the gross carrying amount of the assets minus a deduction for the ECL.

(a) Write-off
Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the outstanding amount due.

(b) Renegotiated loans
Renegotiated loans are derecognised if the new terms are significantly different to the original agreement. Loans that have been modified to such an extent the renegotiated loan is substantially different to the original loan, are no longer considered to be past due and are treated as new loans.

(c) Forbearance
Under certain circumstances, the Group may use forbearance measures to assist borrowers who are experiencing significant financial hardship. Any forbearance support is assessed on a case by case basis in line with best practice and subject to regular monitoring and review. The Group seeks to ensure that any forbearance results in a fair outcome for both the customer and the Group.

(d) Assets classified as financial investments
Equity instruments at fair value through other comprehensive income
Equity investments are not subject to impairment charges recognised in the income statement. Any fair value gains and losses are recognised in OCI which are not subject to reclassification to the income statement on derecognition.

Debt instruments at FVOCI
Changes in fair value are recognised in OCI, the loss allowance will be recognised in OCI and shall not reduce the carrying amount of the financial asset in the statement of financial position. Impairment costs will be recognised in the profit or loss with a corresponding entry to OCI. On derecognition, cumulative gains and losses in OCI are reclassified to the profit or loss.

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The following tables provide an analysis of loans and advances to customers (as disclosed in the Group's Annual Report):

Group	2021 Stage 1 £000	 Stage 2 £000	 Stage 3 £000	 Total £000
Gross loans and advances at 1 January 2021	**1,423,332**	**126,347**	**42,798**	**1,592,477**
Originations and repayments	345,787	(53,132)	(11,297)	281,358
Write-offs	-	-	(614)	(614)
Acquired portfolio	4,128	-	-	4,128
Transfer to Stage 1	8,726	(8,726)	-	-
Transfer to Stage 2	(40,132)	44,147	(4,015)	-
Transfer to Stage 3	(3,932)	(13,173)	17,105	-
Gross loans and advances at 31 December 2021	**1,737,909**	**95,463**	**43,977**	**1,877,349**
Less allowances for ECLs (see Note 22)	(388)	(77)	(5,922)	(6,387)
Net loans and advances at 31 December 2021	**1,737,521**	**95,386**	**38,055**	**1,870,962**

Group	2020 Stage 1 £000	 Stage 2 £000	 Stage 3 £000	 Total £000
Gross loans and advances at 1 January 2020	**1,506,024**	**66,372**	**31,447**	**1,603,843**
Originations	4,941	(4,045)	(8,982)	(8,086)
Repayments and write-offs	-	-	(3,280)	(3,280)
Transfer to Stage 1	20,951	(20,951)	-	-
Transfer to Stage 2	(99,683)	99,683	-	-
Transfer to Stage 3	(8,901)	(14,712)	23,613	-
Gross loans and advances at 31 December 2020	**1,423,332**	**126,347**	**42,798**	**1,592,477**
Less allowances for ECLs (see Note 22)	(725)	(533)	(3,370)	(4,628)
Net loans and advances at 31 December 2020	**1,422,607**	**125,814**	**39,428**	**1,587,849**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Loans and advances to customers by division (net of ECL):

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	1,297,625	157,561	82,845	182,122	9,868	7,500	-	1,737,521
Stage 2	70,100	13,719	11,338	-	229	-	-	95,386
Stage 3	28,324	6,802	2,929	-	-	-	-	38,055
At 31 December 2021	**1,396,049**	**178,082**	**97,112**	**182,122**	**10,097**	**7,500**	**-**	**1,870,962**

Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	AAG £000	All Other Divisions £000	Total £000
Stage 1	1,030,970	223,800	74,541	87,331	5,965	-	-	1,422,607
Stage 2	72,626	36,794	16,394	-	-	-	-	125,814
Stage 3	30,204	8,233	991	-	-	-	-	39,428
At 31 December 2020	**1,133,800**	**268,827**	**91,926**	**87,331**	**5,965**	**-**	**-**	**1,587,849**

Analyses of past due loans and advances to customers by division:

	2021						
Group	Banking £000	Mortgage Portfolios £000	RAF £000	ACABL £000	ASFL £000	All Other Divisions £000	Total £000
Up to 30 days	42,125	6,293	1,813	-	1,890	-	52,121
Stage 1	36,118	3,699	1,647	-	1,890	-	43,354
Stage 2	4,623	2,594	-	-	-	-	7,217
Stage 3	1,384	-	166	-	-	-	1,550
30 - 60 days	1,509	2,561	2,736	-	-	-	6,806
Stage 1	-	-	40	-	-	-	40
Stage 2	1,495	2,561	-	-	-	-	4,056
Stage 3	14	-	2,696	-	-	-	2,710
60 - 90 days	25,648	1,566	98	-	-	-	27,312
Stage 2	18,889	1,566	-	-	-	-	20,455
Stage 3	6,759	-	98	-	-	-	6,857
Over 90 days	31,820	7,753	2,583	-	-	-	42,156
Stage 2	6,251	-	2	-	-	-	6,253
Stage 3	25,569	7,753	2,581	-	-	-	35,903
At 31 December 2021	**101,102**	**18,173**	**7,230**	**-**	**1,890**	**-**	**128,395**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Analyses of past due loans and advances to customers by division:

	2020						
	Banking	Mortgage Portfolios	RAF	ACABL	ASFL	All Other Divisions	Total
Group	£000	£000	£000	£000	£000	£000	£000
Up to 30 days	10,554	6,354	1,928	-	-	-	18,836
Stage 1	9,902	5,948	1,468	-	-	-	17,318
Stage 2	652	406	346	-	-	-	1,404
Stage 3	-	-	114	-	-	-	114
30 - 60 days	9	4,187	274	-	-	-	4,470
Stage 1	9	-	-	-	-	-	9
Stage 2	-	4,187	209	-	-	-	4,396
Stage 3	-	-	65	-	-	-	65
60 - 90 days	9,467	1,788	475	-	-	-	11,730
Stage 1	-	-	58	-	-	-	58
Stage 2	9,467	1,788	104	-	-	-	11,359
Stage 3	-	-	313	-	-	-	313
Over 90 days	65,226	7,125	1,096	-	-	-	73,447
Stage 2	29,871	-	276	-	-	-	30,147
Stage 3	35,355	7,125	820	-	-	-	43,300
At 31 December	**85,256**	**19,454**	**3,773**	**-**	**-**	**-**	**108,483**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

An analysis of movements in the allowance for ECLs

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2021	**725**	**533**	**3,370**	**4,628**
Transfer to Stage 1	4	(4)	-	-
Transfer to Stage 2	(13)	13	-	-
Transfer to Stage 3	(15)	(82)	97	-
Current year charge	194	(49)	3,506	3,651
Adjustment due to variation in expected future cash flows	(142)	(280)	65	(357)
Change in assumptions	(191)	(43)	(106)	(340)
Financial assets that have been derecognised	-	-	(230)	(230)
Repayments and write-offs	(174)	(11)	(780)	(965)
At 31 December 2021	**388**	**77**	**5,922**	**6,387**

An analysis of movements in the allowance for ECLs

Group	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
At 1 January 2020	**527**	**47**	**4,216**	**4,790**
Transfer to Stage 1	5	(5)	-	-
Transfer to Stage 2	(17)	17	-	-
Current year charge	139	145	1,613	1,897
Adjustment due to variation in expected future cash flows	(96)	-	700	604
Change in assumptions	308	371	90	769
Financial assets that have been derecognised	-	-	(596)	(596)
Repayments and write-offs	(141)	(42)	(2,653)	(2,836)
At 31 December 2020	**725**	**533**	**3,370**	**4,628**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Analysis of credit risk exposures

The following table analyses the Group's regulatory risk exposures as at 31 December 2021 by the CRR exposure classes:

	2021			2020		
	Original Exposure pre conversion factors	Risk weighted assets after SME supporting factor	Capital Requirement (8%)	Original Exposure pre conversion factors	Risk weighted assets after SME supporting factor	Capital Requirement (8%)
Analysis by credit risk exposure class	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	833,006	-	-	652,616	-	-
Multilateral development banks	23,437	-	-	36,953	-	-
Institutions	21,024	4,959	397	36,642	15,013	1,201
Corporates	358,763	199,052	15,924	186,196	95,804	7,664
Retail	192,270	96,856	7,749	172,843	82,481	6,598
Secured by mortgage on immovable property	1,600,825	573,248	45,860	1,354,485	532,097	42,568
Exposures in default	45,433	49,287	3,943	67,412	75,793	6,063
Items associated with particularly high risk	20,675	25,277	2,022	22,180	25,657	2,053
Covered bonds	175,630	17,563	1,405	169,031	16,903	1,352
Claims on institutions and corporates with a short-term credit assessment	145,464	29,093	2,327	203,508	43,452	3,476
Equity	3,045	3,045	244	18,357	18,357	1,469
Other items	260,822	260,630	20,850	136,936	136,777	10,942
Total credit risk exposure as at 31 December	**3,680,393**	**1,259,010**	**100,721**	**3,057,161**	**1,042,334**	**83,387**

Note:

The credit risk exposures above are disclosed on a regulatory basis and therefore do not reconcile to financial asset classifications as reported in the Group's Statutory Annual Report.

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The following table analyses the Group's regulatory risk exposures as at 31 December 2021 by the CRR exposure classes and geographic distribution. Where the original exposure for a country is greater than 1% of the total original exposure, the country has been separately disclosed.

	Original Exposure pre conversion factors							
	United Kingdom	Canada	Guernsey	Hong Kong	Isle of Man	United Arab Emirates	All other Countries	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	833,006	-	-	-	-	-	-	833,006
Multilateral development banks	-	-	-	-	-	-	23,437	23,437
Institutions	2,516	14,806	-	-	-	-	3,702	21,024
Corporates	352,642	-	-	-	-	28	6,093	358,763
Retail	180,211	-	-	360	-	9,349	2,350	192,270
Secured by mortgage on immovable property	1,246,221	6,103	68,226	55,400	36,655	60,105	128,115	1,600,825
Exposures in default	40,380	-	-	-	1,511	-	3,542	45,433
Items associated with particularly high risk	19,088	-	-	-	-	-	1,587	20,675
Covered bonds	175,630	-	-	-	-	-	-	175,630
Claims on institutions and corporates with a short-term credit assessment	101,596	22,223	-	-	-	-	21,645	145,464
Equity	1,450	-	-	-	-	-	1,595	3,045
Other items	260,822	-	-	-	-	-	-	260,822
Total credit risk exposure as at 31 December	**3,213,562**	**43,132**	**68,226**	**55,760**	**38,166**	**69,482**	**192,066**	**3,680,393**

The following table analyses the Group's regulatory risk exposures as at 31 December 2021 by the CRR exposure classes and counterparty type.

	Original Exposure pre conversion factors						
	Sovereign	Multilateral development banks	Banks	Corporates	Individuals	Other	Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	833,006	-	-	-	-	-	833,006
Multilateral development banks	-	23,437	-	-	-	-	23,437
Institutions	-	-	21,024	-	-	-	21,024
Corporates	-	-	-	319,547	39,216	-	358,763
Retail	-	-	-	140,791	51,479	-	192,270
Secured by mortgage on immovable property	-	-	-	1,038,980	561,845	-	1,600,825
Exposures in default	-	-	-	25,679	19,754	-	45,433
Items associated with particularly high risk	-	-	-	18,964	1,711	-	20,675
Covered bonds	-	-	175,630	-	-	-	175,630
Claims on institutions and corporates with a short-term credit assessment	-	-	145,464	-	-	-	145,464
Equity	-	-	-	3,045	-	-	3,045
Other items	-	-	-	-	-	260,822	260,822
Total credit risk exposure as at 31 December	**833,006**	**23,437**	**342,118**	**1,547,006**	**674,005**	**260,822**	**3,680,393**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Effect of Credit Risk Mitigation by CRR Exposure class: December 2021	Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Central governments or central banks	833,006	-	920,706	10,153	-	0.00%
Multilateral development banks	23,437	-	23,437	-	-	0.00%
Institutions	21,024	-	21,024	-	4,959	23.59%
Corporates	293,004	65,759	226,443	2,121	199,052	55.48%
Retail	132,893	59,377	110,796	7,147	96,856	50.38%
Secured by mortgage on immovable property	1,387,967	212,858	1,351,884	46,259	573,248	35.81%
Exposures in default	45,433	-	44,129	-	49,287	108.48%
Items associated with particularly high risk	16,924	3,751	16,108	743	25,277	122.26%
Covered bonds	175,630	-	175,630	-	17,563	10.00%
Claims on institutions and corporates with a short-term credit assessment	145,464	-	145,464	-	29,093	20.00%
Equity	3,045	-	3,045	-	3,045	100.00%
Other items	260,822	-	260,822	-	260,630	99.93%
Total credit risk exposure as at 31 December	**3,338,649**	**341,744**	**3,299,488**	**66,423**	**1,259,010**	
		3,680,393		**3,365,911**		

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Breakdown by CRR exposure class and risk weight - December 2021 Exposures post CCF and CRM	0% £'000s	10% £'000s	20% £'000s	35% £'000s	50% £'000s	75% £'000s	100% £'000s	150% £'000s	250% £'000s	Total credit exposures £'000s
Central governments or central banks	930,859	-	-	-	-	-	-	-	-	930,859
Multilateral development banks	23,437	-	-	-	-	-	-	-	-	23,437
Institutions	-	-	18,508	-	2,516	-	-	-	-	21,024
Corporates	-	-	-	-	-	-	228,564	-	-	228,564
Retail	-	-	-	-	-	-	117,943	-	-	117,943
Secured by mortgage on immovable property	-	-	-	1,210,816	-	-	187,327	-	-	1,398,143
Exposures in default	-	-	-	-	-	-	33,814	10,315	-	44,129
Items associated with particularly high risk	-	-	-	-	-	-	-	16,851	-	16,851
Covered bonds	-	175,630	-	-	-	-	-	-	-	175,630
Claims on institutions and corporates with a short-term credit assessment	-	-	145,464	-	-	-	-	-	-	145,464
Equity	-	-	-	-	-	-	3,045	-	-	3,045
Other items	192	-	-	-	-	-	260,630	-	-	260,822
	954,488	**175,630**	**163,972**	**1,210,816**	**2,516**	**-**	**831,323**	**27,166**	**-**	**3,365,911**

Credit Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Analysis of loans and advances to banks

The table below presents an analysis of loans and advances to banks by rating agency designation as at 31 December, based on Moody's long term ratings (as disclosed in the Group's Annual Report):

Analysis of loans and advances to banks	2021 £000	2020 £000
Aa3	-	341
A1	61,527	100,748
A2	11,909	10
A3	-	3,956
Baa1	-	5,204
Unrated	8	8
Total	**73,444**	**110,267**

Analysis of debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December, based on Moody's long term ratings (as disclosed in the Group's Annual Report):

Analysis of debt securities	2021 £000	2020 £000
Aaa	56,783	61,715
Aa1	33,314	29,315
Aa2	16,403	14,657
Aa3	11,105	41,986
A1	183,447	197,019
Total	**301,052**	**344,692**

To calculate the Pillar 1 credit risk requirement under the standardised approach, the credit ratings are mapped to credit quality steps in accordance with PRA rules.

Market Risk & Operational Risk

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Market Risk

The Group does not have a trading book and so its Pillar 1 capital requirement for market risk is limited to foreign exchange risk. Other market risks, such as interest rate risk in the banking book, are considered by the Group within the ICAAP.

Foreign Exchange Risk

The Group calculates its Pillar 1 capital requirement for foreign exchange risk in accordance with Article 352 of the CRR. This requires the Group to calculate the net open position in each currency and these are then summed separately to calculate the total of the net short positions and the total of the net long positions. The higher of these two totals is the Group's net foreign exchange position. This is multiplied by 8% to calculate the capital requirement.

The table below shows the Group's Pillar 1 capital requirement for foreign exchange risk at 31 December 2021 and 2020.

£'000s	2021	2020
Net foreign exchange position	7,527	4,186
Capital Requirement (8%)	602	335

Operational Risk

The Group has adopted the Basic Indicator Approach for calculating the Pillar 1 capital requirements for operational risk. Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15 % of the average over three years of the relevant indicator.

The table below shows the quantification of the Group's Pillar 1 operational risk requirement as at 31 December 2021.

	Relevant Indicator			
£'000s	2018	2019	2020	Average
Banking activities subject to the basic indicator approach	81,409	88,891	84,897	85,066
Operational risk capital requirement				**12,760**

Countercyclical Capital Buffer

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The Group calculates its institution specific countercyclical capital buffer rate in accordance with the requirements within the PRA Rulebook. The rate is the weighted average of the countercyclical capital buffer rates that apply to exposures in the jurisdictions where the Group's relevant credit exposures are located.

The tables below disclose the information relevant for the calculation of the Group's countercyclical capital buffer and reports the buffer requirement at 31 December 2021.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

	General credit exposures:	Own Funds requirement:	Own Funds Requirement weights (%)	Countercyclical capital buffer rate (%)
£'000s	Exposure value for Standardised approach	Of which: General credit exposures		
Breakdown by County				
Hong Kong	53,768	1,795	1.79%	1.00
Czech Republic	6	1	0.00%	0.50
Rest of the World	2,336,816	98,529	98.21%	0
Total	**2,390,591**	**100,324**	**100.00%**	

Amount of institution specific countercyclical capital buffer

	£'000s
Total risk exposure amount	1,427,724
Institution specific countercyclical capital buffer rate	0.02%
Institution specific countercyclical buffer requirement	255

Encumbrance

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Financial assets can be pledged as collateral as part of sales and repurchases, securities borrowing and securitisation transactions under terms that are usual and customary for such activities. In addition, as part of these transactions, the Group may receive collateral that it is permitted to sell or repledge in the absence of default.

The Group primarily encumbers assets through positioning loans or treasury assets as collateral to support access to the Bank of England's Term Funding Scheme with additional incentives for SMEs ("TFSME"). The TFSME allows participants to borrow central bank reserves in exchange for eligible collateral. Deposits from banks include £225m (2020: £225m) obtained through TFSME (2020 through TFS).

	2021				2020			
	Encumbered assets		Unencumbered assets		Encumbered assets		Unencumbered assets	
Encumbered and unencumbered assets	Carrying Amount £'000s	Fair Value £'000s	Carrying Amount £'000s	Fair Value £'000s	Carrying Amount £'000s	Fair Value £'000s	Carrying Amount £'000s	Fair Value £'000s
Loans on demand	-		887,040		829		745,739	
Equity instruments	-	-	3,045	3,045	-	-	18,357	18,357
Debt securities	124,726	125,590	176,450	177,861	108,009	108,859	236,821	237,940
Loans and advances other than loans on demand	160,030		1,712,028		179,417		1,408,930	
Other assets	-		295,548		-		155,434	
Assets of the reporting institution	**284,756**		**3,074,110**		**288,255**		**2,565,281**	
Total on-balance sheet (encumbered and unencumbered)			**3,358,867**				**2,853,536**	

Leverage Ratio

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The leverage ratio is a regulatory measure complementing capital. The leverage ratio is defined as Tier 1 capital divided by the total leverage ratio exposure measure, expressed as a percentage. The exposure measure includes both on-balance sheet exposures and off-balance sheet items. On balance sheet exposures are generally included at their accounting value, although exposures arising from derivatives transactions includes an add-on for the related counterparty credit risk.

The leverage ratio together with the other regulatory metrics is actively monitored and assessed by the Group.

At 31 December 2021, the Group calculated its leverage ratio in accordance with article 429 of the CRR and reports this to the PRA on a quarterly basis. AL's ALCO monitor the leverage ratio on a monthly basis and has set an appropriate risk appetite. The monitoring includes a month on month trend analysis of the ratio, and a forecast ratio and these enable the Group to identify whether there is a heightened risk of excessive leverage.

CRR2 introduced a binding leverage ratio requirement, in the EU, of 3% from June 2021. However, the CRR2 changes were not implemented in the EU before the end of the Brexit transition period and so the PRA and FPC have updated the UK leverage ratio framework from 1 January 2022.

The Group is below the thresholds for the UK leverage ratio framework meaning, from 1 January 2022, it is not subject to the Leverage Ratio – Capital Requirements and Buffers Part of the PRA Rulebook or the minimum leverage ratio requirement.

For firms in scope of the Leverage Ratio – Capital Requirements and Buffers Part of the PRA Rulebook there is a minimum leverage ratio requirement. This requires firms to hold sufficient tier 1 capital to maintain, at all times, a minimum leverage ratio of 3.25%. Under this regime the leverage ratio exposure measure excludes assets constituting claims on central banks, where they are matched by liabilities, denominated in the same currency and of identical or longer maturity.

In accordance with PRA SS45/15 'The UK Leverage Ratio Framework' (effective 1 January 2022) firms that are not in scope of the leverage ratio requirement, such as the Group, are nevertheless expected to manage their leverage risk so that their leverage ratio – to be calculated based on the same rules as the in-scope firms - does not ordinarily fall below 3.25%. The Group will adhere to this PRA expectation.

The following three tables follow the formats that are prescribed by the European Banking Authority ("EBA"). Rows without balances have been omitted. The templates are populated based on the rules as of 31 December 2021.

Leverage Ratio

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	2021 £000	2020 £000
Total consolidated assets as per published financial statements	3,358,867	2,853,536
Adjustments for derivative financial instruments	663	885
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	75,837	43,449
Other adjustments	(26,244)	(15,393)
Total leverage exposure	**3,409,123**	**2,882,477**

LRCom: Leverage ratio common disclosure	2021 £000	2020 £000
On-balance sheet exposures (excluding derivatives and SFTs):		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	3,357,114	2,851,693
(Asset amounts deducted in determining Tier 1 capital)	(26,244)	(15,393)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**3,330,870**	**2,836,300**
Derivative exposures:		
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	1,753	1,843
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	663	885
Total derivative exposures	**2,416**	**2,728**
Other off-balance sheet exposures:		
Off-balance sheet exposures at gross notional amount	341,744	213,463
(Adjustments for conversion to credit equivalent amounts)	(265,907)	(170,014)
Other off-balance sheet exposures	**75,837**	**43,449**
Capital and total exposures:		
Tier 1 capital	176,235	180,586
Total leverage ratio exposures	3,409,123	2,882,477
Leverage Ratio	**5.2%**	**6.3%**

Leverage Ratio

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Table LRSpl: Split of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	2021 £000	2020 £000
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**3,330,870**	**2,836,300**
Banking book exposures, of which:	**3,330,870**	**2,836,300**
Covered bonds	175,630	169,031
Exposures treated as sovereigns	833,006	652,616
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	23,437	36,953
Institutions	18,819	34,212
Secured by mortgages of immovable properties	1,387,899	1,237,420
Retail exposures	132,204	124,774
Corporate	292,891	143,596
Exposures in default	44,178	66,361
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	422,806	371,338

Liquidity

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Liquidity Coverage Ratio ("LCR")

		Total unweighted value	Total weighted value
High-quality liquid assets			
1	Total HQLA		897,493
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	**974,973**	**154,881**
3	Stable deposits	135,309	6,765
4	Less stable deposits	839,664	148,116
5	**Unsecured wholesale funding, of which:**	**1,094,647**	**457,560**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	1,094,647	457,560
8	Unsecured debt	-	-
9	**Secured wholesale funding**		-
10	**Additional requirements, of which:**	**330,683**	**24,803**
11	Outflows related to derivative exposures and other collateral requirements	2	2
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	330,681	24,801
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	-	-
16	**TOTAL CASH OUTFLOWS**		**637,244**
Cash inflows			
17	**Secured lending (e.g. reverse repo)**	-	-
18	**Inflows from fully performing exposures**	237,374	150,235
19	**Other cash inflows**	-	-
20	**TOTAL CASH INFLOWS**	**237,374**	**150,235**
			Total adjusted value
21	**Total HQLA**		**897,493**
22	**Total net cash outflows**		**487,009**
23	**Liquidity coverage ratio (%)**		**184.3%**

High quality liquid assets consist out of the Group's Bank of England reserve account, central government, central bank and multi-lateral development bank assets and covered bonds.

Remuneration Disclosures

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

The Remuneration Code (the "Code") requires a firm to maintain remuneration policies, procedures and practices that promote effective risk management. The Code requires the Group to identify Material Risk Takers ("MRTs"), also known as Code staff. MRTs have activities which have a material impact on the firm's risk profile. In respect of the 2021 performance year, the Group identified 40 MRTs (including those who were MRTs only for part of the year).

MRTs

The following have been identified as MRTs across the Group:

1. All Executive and Non-Executive Directors of Arbuthnot Banking Group PLC ("ABG") and Arbuthnot Latham & Co., Limited ("AL").
2. All other employees of AL who hold a Senior Management Function ("SMF")
3. All other MRTs not caught under 1 or 2, as per criteria defined under Rule 3.1, 3.2A and 3.3A of the Remuneration Part of the PRA Rulebook

During the performance year 2021, there were no other staff identified who are both highly remunerated and could have an impact on the Group's risk profile.

Aggregate Remuneration Expenditure (MRTs)

Group Directors	AL
£4,443,355	£6,231,082

Breakdown of remuneration between Fixed and Variable amounts

December 2021	Total	Directors	Others
Number of MRTs	40	14	26
Fixed	£8,351,567	£4,781,945	£3,569,622
Variable	£2,322,870	£929,240	£1,393,630

Decision making process used to determining the remuneration policy

The ABG Remuneration Committee has responsibility for oversight of the ABG Remuneration policy and the implementation of it, while the AL Remuneration Committee is responsible for the AL Remuneration policy and the implementation thereof.

Whilst it is the established practice for all pay rises and bonuses to be reviewed at Group level, any bonuses in excess of 33% of total remuneration to MRTs and/or any remuneration package in excess of £500,000 need to be specifically approved in advance by either the ABG Remuneration Committee or the AL Remuneration Committee.

Where the Committee believe it is appropriate, significant bonuses will be subject to a deferred payment structure.

Composition of the Remuneration Committee

Membership of both Remuneration Committees is limited to non-executive directors together with Sir Henry Angest who is Chairman of both. The ABG Remuneration Committee met three times during the year and the AL Remuneration Committee met three times. Both Committees are required to meet formally at least once per year and otherwise as required.

Remuneration Disclosures

The present members of the ABG Remuneration Committee are Sir Henry Angest, Sir Christopher Meyer and Sir Alan Yarrow. The present members of the AL Remuneration Committee are Sir Henry Angest, Angela Knight, Nigel Boardman and Paul Marrow.

The Committees have responsibility for producing recommendations on their respective Remuneration Policies and for reviewing the remuneration of specific MRTs.

Link between pay and performance

The Group believes in the importance of attracting, retaining and motivating Staff of the appropriate calibre without paying more than is necessary for this purpose.

The general principle for the Group is that staff will be paid a salary, plus benefits and they will be eligible for an annual discretionary bonus.

Both salary increases and the payment of a discretionary bonus are subject to good performance, company profitability and compliance with risk/compliance policies and risk appetite limits.

Own Funds Disclosure Template

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

Own funds disclosure template £'000s			**Regulation (EU) No 575/2013 Article Reference**
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	154	26 (1), 27, 28, 29
	of which: Ordinary Shares	154	EBA list 26 (3)
	of which: Instrument type 2	0	EBA list 26 (3)
	of which: Instrument type 3	0	EBA list 26 (3)
2	Retained earnings	201,026	26 (1) c)
3	Accumulated other comprehensive income (and other reserves)	2,598	26 (1)
3a	Funds for general banking risk	0	26 (1) (f)
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET 1	0	486 (2)
5	Minority interests (amount allowed in consolidated CET 1)	0	84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0	26 (2)
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	**203,778**	Sum of rows 1 to 5a
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(5)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(23,869)	36 (1) (b), 37
9	Empty Set in the EU	0	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) where the conditions in Article 38 (3) are met) (negative amount)	(2,370)	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	0	33(1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts	0	36 (1) (d), 40, 159
13	Any increase in equity that results from securitised assets (negative amounts)	0	32 (1)
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33(1) (b)
15	Defined benefit pension fund assets (negative amount)	0	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	(1,299)	36 (1) (f), 42

Own Funds Disclosure Template

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

17	Direct , indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	36 (1) (g), 44
18	Direct , indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79
19	Direct , indirect and synthetic holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79
20	Empty Set in the EU	0	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)
20b	of which: qualifying holding outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 - 91
20c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii), 243 (1) (b), 244 (1) (b), 258
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met (negative amount)	0	36 (1) c), 38, 48 (1) (a)
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b)
24	empty set in the EU	0	
25	of which: deferred tax assets that arise from temporary differences	0	36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a)
25b	Foreseeable tax charge relating to CET1 items (negative amount)	0	36 (1) (l)
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)

Own Funds Disclosure Template

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(27,543)**	Sum of rows 7 to 20a, 21, 22 and 25a to 27
29	**Common Equity Tier 1 (CET1) capital**	**176,235**	Row 6 minus row 28
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	0	51, 52
31	of which: classified as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standard	0	
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	85, 86
35	of which: instruments issued by subsidiaries subject to phase out	0	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	Sum of rows 30, 33 and 34
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	0	52 (1) (b), 56 (a), 57
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution	0	56 (b), 58
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	56 (d), 59, 79
41	Empty set in the EU	0	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	0	Sum of rows 37 to 42
44	**Additional Tier 1 (AT1) capital**	0	Row 36 minus row 43

Own Funds Disclosure Template

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

45	**Tier 1 capital (T1 = CET1 + AT1)**	**176,235**	Sum of row 29 and row 44
Tier 2 (T2) capital: Instruments and provisions			
46	Capital instruments and the related share premium accounts	36,772	62, 63
47	Amount of qualifying items referred to in Article 484(5) and the related share premium accounts subject to phase out from T2	0	486 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	87, 88
49	of which: instruments issued by subsidiaries subject to phase out	0	486 (4)
50	Credit risk adjustments	0	62 (c) and (d)
51	Tier 2 (T2) capital before regulatory adjustments	36,772	
Tier 2 capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amounts)	0	63 (b) (i), 66 (a), 67
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	66 (d), 69, 79
56	Empty set in the EU	0	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**0**	**Sum of rows 52 to 56**
58	**Tier 2 (T2) capital before regulatory adjustments**	36,772	**Row 51 minus row 57**
59	**Total capital (TC = T1 + T2)**	**213,007**	**Sum of row 45 and row 58**
60	**Total risk weighted assets**	**1,427,724**	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	12.3%	92 (2) (a)

Own Funds Disclosure Template

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2021

62	Tier 1 (as a percentage of total risk exposure amount)	12.3%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount)	14.9%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7.02%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	
66	of which: countercyclical buffer requirement	0.02%	
67	of which: systemic risk buffer requirement	0	
67a	of which: Global systemically Important Institution (G-SII) or Other Systemically Important Institution (-O-SII) buffer	0	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.8%	CRD 128
69	(non relevant in EU regulation)	0	
70	(non relevant in EU regulation)	0	
71	(non relevant in EU regulation)	0	
Amounts below the threshold for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	36 (1) (h), 46, 45, 56 (c), 59, 60, 66 (c), 69, 70
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	36 (1) (i), 45, 48
74	Empty set in the EU	0	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	36 (1) (c), 38, 48
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application to the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings based approach (prior to the application of the cap)	0	62

Own Funds Disclosure Template

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79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	0	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	0	484 (3), 486 (2) & 5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & 5)
82	Current cap on AT1 instruments subject to phase out arrangements	0	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	0	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)