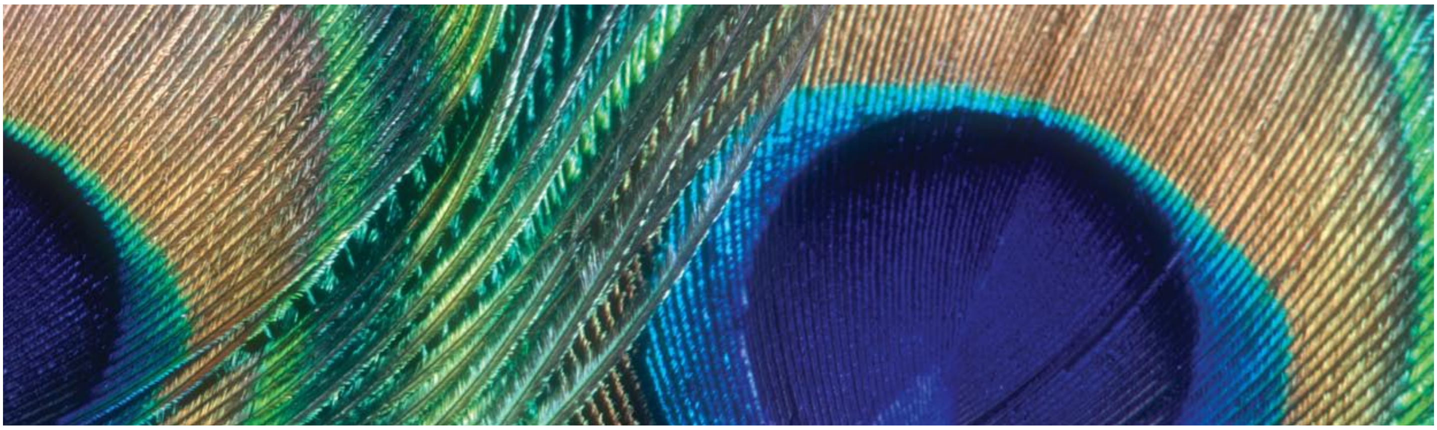
ARBUTHNOT BANKING GROUP PLC

PILLAR 3 DISCLOSURES FOR THE YEAR ENDED 31 DECEMBER 2022



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Overview

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Origins of Arbuthnot Latham

George Arbuthnot (1772 – 1843) was a son of the Edinburgh banker Robert Arbuthnot. He started in 1803 as a partner in Latour & Co. in Madras (today Chennai), Southern India. Latour & Co. had been set up in 1780 by Count Francis Joseph Louis Latour de Quercy, who died in 1808. In 1807 Latour & Co. became Arbuthnot & Co. and George Arbuthnot became the leading partner until he retired in 1824. In his farewell letter to the partners he said: "…not only give the constituent (client) the assurance that his money is safe, but also give him the feeling that he is benefitting himself by dealing with the House."

In 1826 John Alves Arbuthnot started as a clerk at Arbuthnot & Co. and in 1831 became a partner. He married the daughter of George Arbuthnot. Upon his return to London he established, together with Alfred Latham, the trading house Arbuthnot & Latham on 13 March 1833.

(For more details, read the book: Arbuthnot Latham 1833 – 2013 by David Lascelles)

The importance of history and Sun Tzu

The importance of previous experience cannot be overstated. "Those who are not willing to learn from history are doomed to repeat the mistakes of previous generations." A good place to start, therefore, is with the famous Chinese General, Sun Tzu and his writings in "The Art of War" c. 2500 years ago. He established some basic truths such as:

- "He whose ranks are united in purpose will be victorious."
- "The commander will surely choose those who are most fortunate."
- "The traits of a true commander are: courage, wisdom, humanity and integrity."

The Seven Principles

Ever since George Arbuthnot first gave guidance about corporate behaviour, it has been the culture of Arbuthnot to follow his advice. The Seven Principles summarise Arbuthnot's corporate philosophy and ethics.

During the 190 year history of serving its customers, Arbuthnot has proven its ability to adopt and grow by applying such principles with pragmatism and common sense.

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.

Overview

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2022

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 ("CRDV") amended the CRD and in the UK 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.

CRD V introduced a new requirement for certain types of parent financial holding company or mixed financial holding company to be subject to PRA supervisory approval and consolidated supervision. Arbuthnot Banking Group PLC ("ABG") was approved by the PRA as a Parent Financial Holding Company on 10 November 2021 (effective 22 October 2021). Following its approval, ABG is responsible for ensuring compliance with consolidated prudential requirements.

The Disclosure (CRR) Part of the PRA Rulebook, applicable from 1 January 2022, 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 Report and Accounts for 31 December 2022.

Scope

The disclosures have been prepared at a consolidated level for ABG. 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 PRA and regulated by the FCA and by the PRA. Three of AL's subsidiaries, Asset Alliance Leasing Limited, Forest Asset Finance Limited and Renaissance Asset Finance Limited ("RAF"), are regulated by the FCA.

AL reports to the PRA on a solo-consolidated basis. The solo-consolidated group includes RAF, the 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, in accordance with the frequency requirements of the PRA Rulebook. This document provides the required disclosure as of 31 December 2022.

ABG is a small and non-complex institution[1]. Therefore, in accordance with the Disclosure (CRR) Part of the PRA Rulebook ABG's Pillar III disclosure requirements can be summarised as:

- **On a semi-annual basis**
  - The key metrics in accordance with PRA template UK KM1.
- **On an annual basis:**
  - **Risk Management Objectives and Policies** as required within points (a), (e) and (f) of Article 435(1) of the Disclosure (CRR) Part of the PRA Rulebook;
  - **Disclosure of Own Funds Requirements and Risk-Weighted Exposure Amounts**: as required within point (d) of Article 438 the Disclosure (CRR) Part of the PRA Rulebook;
  - **Remuneration Policy**: as required within points (a) to (d), (h), and (i) of Article 450(1) of the Disclosure (CRR) Part of the PRA Rulebook.

[1] As defined in Article 4(1)(145) of the CRR

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The Group regularly monitors that it continues to meet the definition of a small and non-complex institution and if it ceases to meet the requirements the Pillar III disclosures will be updated accordingly. As part of its implementation of the Basel 3.1 standards and Strong and Simple regime the PRA is consulting on changes to Pillar III. The Group will continue to monitor these regulatory developments to ensure that its disclosures continue to be in accordance with PRA rules and expectations and industry best practice.

The Pillar III disclosures are subject to internal review procedures broadly consistent with those undertaken for unaudited information published in the Report and Accounts. 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 that 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 regulatory 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.

Attestation
The Group Finance Director attests that ABG has made the disclosures within this document in accordance with the requirements of the Disclosure (CRR) Part of the PRA Rulebook. Preparation of these disclosures has followed the Disclosure Policy, as above, and ABG's internal processes, systems and controls.

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

Regulatory developments
Basel 3.1
In November 2022 the PRA published CP16/22: *Implementation of the Basel 3.1 standards* within which the PRA is proposing rules and expectations with respect to the UK's implementation of the remaining Basel 3.1 standards. This will include a revised standardised approach for credit risk; and this is the approach used by the Group. The PRA is proposing that these rules will apply from 1 January 2025.

The revised standardised approach for Credit Risk proposes significant changes to the calculation of risk weighted assets, including:

- Changes to real estate classifications and treatment. Different risk weights will apply depending on whether the exposure is materially dependent on the cash flows generated by the property.
- Changes to the definition of 'residential real estate'.
- Changes to the treatment of loans for property development.
- Use of the origination values for the LTV calculation.
- Removal of the SME supporting factor.
- Changes to the credit conversion factors for committed facilities.
- Application of the output floor for firms using the Internal Ratings Based approach for Credit Risk.

Strong and Simple
The PRA is consulting on a Strong and Simple regime which will seek to mitigate the 'complexity problem' that can arise for smaller banks and building societies.

Within the Basel 3.1 consultation the PRA has continued to consult on the Strong and Simple regime. The PRA has consulted further on the definition of a Simpler Regime Firm with the definition having been revised given feedback received from the initial consultation.

The PRA has split the development of the simpler regime into two phases:

- Phase 1 considers the liquidity and disclosure requirements for simpler regime firms and the PRA published a consultation on this in February 2023. The PRA has proposed an implementation data for this phase of H2 2024.
- Phase 2 will focus on the capital framework and the PRA is making the planning assumption that the Basel 3.1 Pillar 1 approach to credit risk would be the starting point for the simpler regime framework. The PRA intends to consult on Phase 2 in H1 2024.

Within PRA CP16/22 the PRA is consulting on introducing a capital regime containing rules substantively the same as those currently applicable under the CRR (the "Transitional Capital Regime") which will be available to firms meeting the Simpler-regime criteria on 1 January 2024. This regime will apply during the interim period between the PRA's proposed implementation date for the Basel 3.1 standards (1 January 2025) and the future implementation date for an intended permanent risk-based capital framework for the simpler regime. This will mean that simpler regime firms will not need to implement Basel 3.1 on 1 January 2025 but will remain on rules substantially the same as the current CRR until the simpler regime framework is finalised.

The Group continues to monitor regulatory developments to ensure that it continues to meet all regulatory expectations and requirements.

Key Metrics

Key Metrics
The following table, UK KM1, provides a summary of the Group's main prudential regulatory ratios and measures[2].

The ratios are reviewed on a monthly basis to ensure that external requirements are adhered to. During the period all regulated entities have complied with all externally imposed capital and liquidity requirements to which they are subject.

The capital ratios and measures below are presented on a transitional basis and, therefore, include permissible adjustments for the IFRS9 transitional relief.

Point (h) of Article 447 of the Disclosure (CRR) Part of the PRA Rulebook requires the reporting of own funds and eligible liabilities ratios as calculated in accordance with CRR Articles 92a and 92b and broken down at the level of each resolution group, where applicable. Both these CRR Articles only apply to G-SIIs and so are not applicable to the Group.

[2] Disclosed in accordance with points (a) to (g) of Article 447 of the Disclosure (CRR) Part of the PRA Rulebook.

Key Metrics

Arbuthnot Banking Group PLC
Pillar 3 disclosures for the year ended 31 December 2022

Template UK KM1 - Key metrics template

		a	c	e
		Dec 22*	Jun-22	Dec - 21*
	Available own funds (amounts)			
1	Common Equity Tier 1 (CET1) capital (£'000)	175,375	164,835	176,235
2	Tier 1 capital (£'000)	175,375	164,835	176,235
3	Total capital (£'000)	212,969	201,993	213,007
	Risk-weighted exposure amounts			
4	Total risk-weighted exposure amount (£'000)	1,516,141	1,474,180	1,427,724
	Capital ratios (as a percentage of risk-weighted exposure amount)			
5	Common Equity Tier 1 ratio (%)	11.57%	11.18%	12.34%
6	Tier 1 ratio (%)	11.57%	11.18%	12.34%
7	Total capital ratio (%)	14.05%	13.70%	14.92%
	Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)			
UK 7a	Additional CET1 SREP requirements (%)	0.18%	0.42%	0.63%
UK 7b	Additional AT1 SREP requirements (%)	0.06%	0.06%	0.13%
UK 7c	Additional T2 SREP requirements (%)	0.08%	0.08%	0.17%
UK 7d	Total SREP own funds requirements (%)	8.32%	8.56%	8.93%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)			
8	Capital conservation buffer (%)	2.50%	2.50%	2.5%
UK 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.88%	0.02%	0.02%
UK 9a	Systemic risk buffer (%)	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-
UK 10a	Other Systemically Important Institution buffer	-	-	-
11	Combined buffer requirement (%)	3.38%	2.52%	2.52%
UK 11a	Overall capital requirements (%)	11.70%	11.08%	11.45%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.33%	4.70%	5.59%
	Leverage ratio			
13	Total exposure measure excluding claims on central banks (£'000)	2,923,193	2,846,461	NA: For ABG the Leverage Ratio rules which exclude claims on central banks were effective from 1 January 2022**
14	Leverage ratio excluding claims on central banks (%)	6.00%	5.79%	
	Additional leverage ratio disclosure requirements			
14a	Fully loaded ECL accounting model leverage ratio excluding claims on central banks (%)	NA: Only LREQ firms shall disclose values in rows UK KM1;14a to UK KM1;14e		
14b	Leverage ratio including claims on central banks (%)			
14c	Average leverage ratio excluding claims on central banks (%)			
14d	Average leverage ratio including claims on central banks (%)			
14e	Countercyclical leverage ratio buffer (%)			
	Liquidity Coverage Ratio* **			
15	Total high-quality liquid assets (HQLA) (Weighted value -average) (£'000)	710,180	759,771	776,633
UK 16a	Cash outflows - Total weighted value	629,384	588,165	547,432
UK 16b	Cash inflows - Total weighted value (£'000)	223,565	181,236	192,514
16	Total net cash outflows (adjusted value) (£'000)	405,819	406,929	354,918
17	Liquidity coverage ratio (%)	175%	187%	219%
	Net Stable Funding Ratio****			
18	Total available stable funding (£'000)	2,464,147	2,389,557	NA: The current NSFR rules were effective 1 January 2022.**
19	Total required stable funding (£'000)	1,940,538	1,908,852	
20	NSFR ratio (%)	127%	125%	

* Includes year end verified reserves
** The disclosure of data for previous periods is not required when data is disclosed for the first time.
***The LCR balances are calculated as the simple averages of month end positions over the 12 months preceding the end of the reporting quarter
**** The NSFR ratio for 31 December 2022 is calculated as an average of the preceding four quarters reflecting PRA requirements effective 1 January 2022. For June 22 ABG did not have four quarters of data to average and so the actual position is presented.

Risk Management Objectives and Policies

The Group regards the monitoring and controlling of risks and uncertainties as a fundamental part of the management process.

The Arbuthnot Latham Chief Risk Officer and SMF4 ("CRO") is responsible for the management of risk within the Arbuthnot Latham Group. The CRO has management responsibility for the Credit Risk, Compliance, Financial Crime Prevention ("FCP") and Operational Risk departments. These departments are collectively known as the Risk Oversight function.

The Arbuthnot Latham Risk Oversight function assists the bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

The ABG Board considers that, as at 31 December 2022, the risk management systems put in place are adequate with regard to the bank's profile and strategy.

Principal Risks

The Group considers its principal risks to be the most significant or key risks facing the Group, including those that may threaten the business model, future performance, solvency or liquidity.

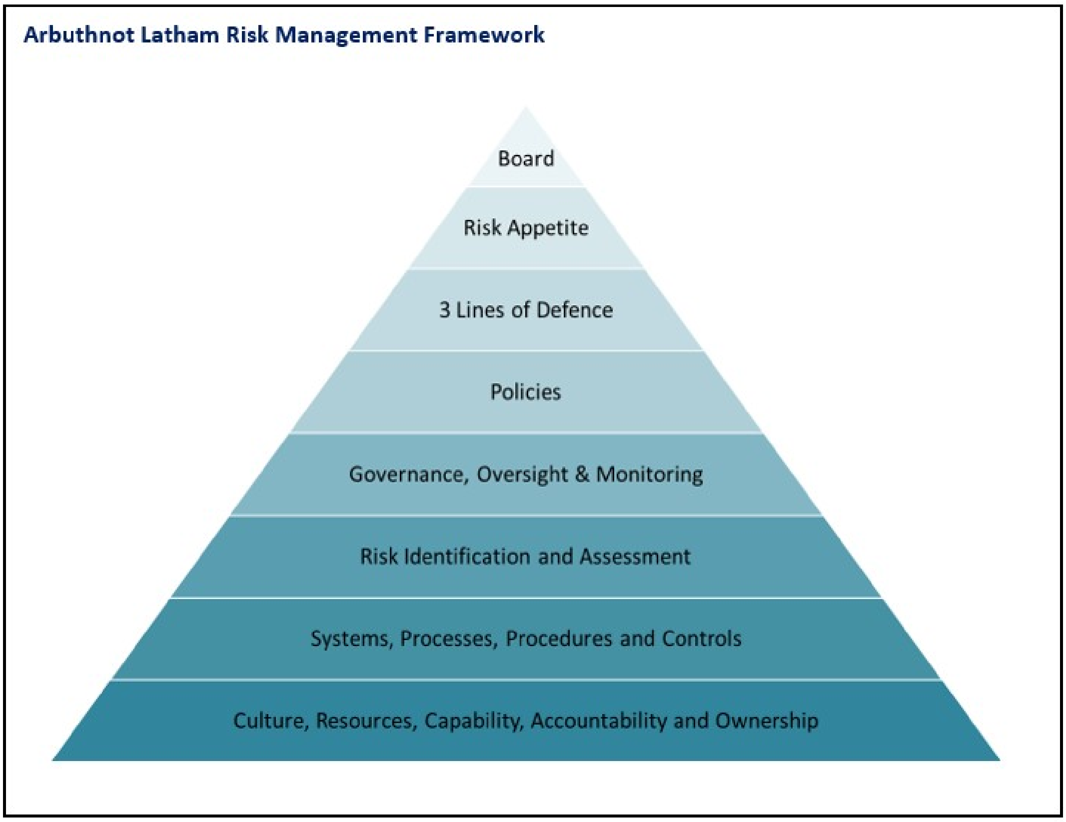
The Group has determined its principal risks as outlined below. They include all types of risk, including existing and emerging risks as well as the organisation's key sources or primary categories of risk.

	Principal Risks	Definition
Enterprise & Strategic Risk	Prudential Capital Adequacy	The risk that Arbuthnot Latham's capital falls below its base capital requirement (regulatory and/ or statutory) resulting in the bank being unable to absorb losses and/or incurring regulatory censure.
	Prudential Liquidity Adequacy	The risk that Arbuthnot Latham is unable to pay its liabilities as they fall due, including those associated with its depositors, resulting in a potential run on the bank.
	Credit Risk: Client Lending	The risk that a counterparty (borrower) will default on their obligations.
	Financial Crime	The risk of offences such as money laundering, terrorist financing, fraud, bribery and corruption, market abuse and insider trading.
	Conduct Risk	The risk that detriment is caused to the bank's clients or the market because of inappropriate behaviour or judgement in conducting Arbuthnot Latham business activities.
	Cyber Risk	The risk of financial loss, disruption or damage to the reputation of the Bank from a failure of, or an attack on, its information technology systems, data and infrastructure.
	Operational Resilience	The risk of the inability of firms and the financial system to absorb and adapt to shocks, rather than contribute to them.
	Operational Risk	The risk that Arbuthnot Latham is exposed to financial and non-financial losses resulting from inadequate or failed internal processes, people, systems, or from external events.

Enterprise and Strategic Risks relate to business decision making and specifically cover four underlying risk areas.

Risk Management Framework
The Group has in place an established enterprise-wide 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.



Arbuthnot Banking Group Board
ABG is led and controlled by a Board of Directors comprising:

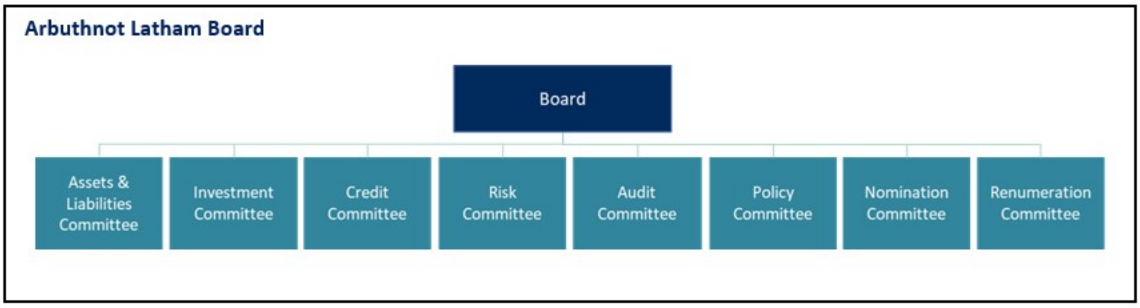
- Sir Henry Angest (Executive Chairman and Chief Executive)
- Andrew Salmon (Group Chief Operating Officer and Head of Business Development)
- James Cobb (Group Finance Director)
- Sir Nigel Boardman (Non-Executive Director)
- Ian Dewar (Non-Executive Director)

- Sir Alan Yarrow (Non-Executive Director)
- Frederick Angest (Non-Executive Director)
- The Company Secretary is Nick Jennings.

Arbuthnot Latham Group Board

Arbuthnot Latham is led and controlled by a Board of Directors comprising:

- Sir Nigel Boardman (Chair)
- Sir Henry Angest (President and Director)
- Angela Knight (Non-Executive Director)
- Paul Marrow (Non-Executive Director and Chair of Risk Committee)
- Richard Gabbertas (Non-Executive Director and Chair of Audit Committee)
- Andrew Salmon (Chief Executive)
- James Cobb (Finance Director and Deputy Chief Executive)
- Stephen Kelly (Chief Risk Officer)
- Dan Dagg (Chief Operating Officer)
- The Company Secretary is Nick Jennings.



The key Board tasks are:

- To establish and maintain a vision, values and culture for the Arbuthnot Latham Group which reflect the Arbuthnot corporate principles;
- To determine the strategy of the Arbuthnot Latham Group and review the achievement of the strategy;
- To oversee Executive Management of the Arbuthnot Latham Group; and
- To determine the risk appetite of the Arbuthnot Latham Group and review the performance of its business against these risk appetites.

The Arbuthnot Latham Group Board retains ultimate accountability for the adequacy and effectiveness of the organisation's risk management arrangements, including the continued appropriateness of the Board set risk strategy and risk appetite in light of Arbuthnot Latham Group's purpose, values, corporate strategy and strategic objectives.

The Arbuthnot Latham Group Board delegates day to day management of risk to the Risk Committee, Assets and Liabilities Committee ("ALCO") and the Credit Committee, which in turn manage risk through sub-committees where appropriate.

Key Risk Committees	Responsibility
Risk Committee	Primarily responsibilities are to review and recommend to the Board specific risk polices, oversee the development, maintenance and ongoing amelioration of the Arbuthnot Latham Group's overall risk management framework (including climate change reporting and ESG matters), risk appetite and strategy and oversee the Arbuthnot Latham Group's risk exposures, risk and return as well as overseeing adherence to any risk requirements set by ABG and keeping ABG informed of any material risk issues or breaches.
Asset and Liability Committee	Ensures the effectiveness of the high-level financial control over Arbuthnot Latham's balance sheet and the risks undertaken in the course of its business. The Committee sets and controls capital deployment and treasury strategy, guidelines and limits.
Credit Committee	Responsible for considering and approving lending outside parameters reserved to the Credit Team, whether outside those parameters for quantitative reasons, in terms of security being offered or otherwise.

The Arbuthnot Latham Group Board also delegate the management of risk to the subsidiary Boards, who in turn delegate to the executive management.

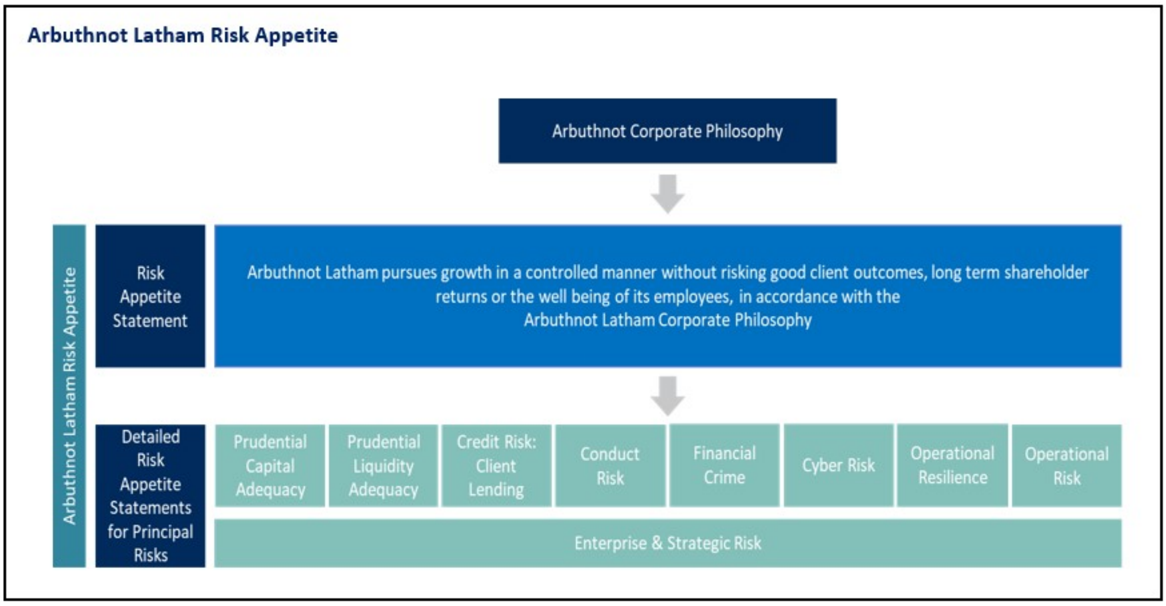
In formulating the governance arrangements, the Arbuthnot Latham Board has regard to the Code of Corporate Governance published by the FRC, and the Handbooks of the PRA and the FCA, including the information in applicable supervisory, policy and other statements.

Arbuthnot Latham regards the monitoring and controlling of risks as a fundamental part of the management process. Consequently, senior management are involved in the development of risk management policies, procedures and processes, and in the monitoring of their application.

Arbuthnot Latham Group Risk Appetite Statement

The Arbuthnot Latham Group 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 deliver its business plan in both normal and stressed conditions.

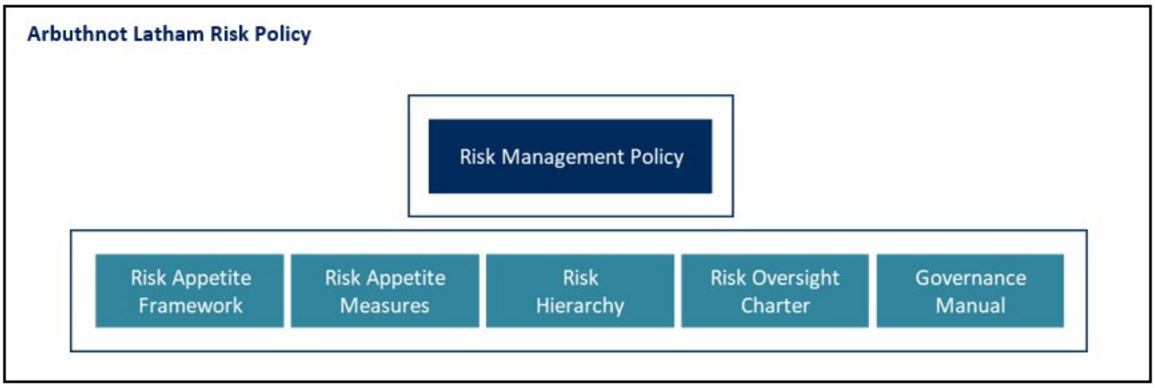
The Arbuthnot Latham Group Risk Appetite reflects the Arbuthnot Banking Group's Corporate Philosophy, which is stated annually in the ABG Report and Accounts and is included within the introduction to this statement. It introduced to all employees as part of the induction process.



Supporting the overarching Risk Appetite Statement is the Arbuthnot Latham Risk Appetite Framework. The Arbuthnot Latham Risk Appetite Framework provides a structured approach to risk taking within agreed boundaries. It details qualitative and quantitative risk appetite statements, and qualitative risk tolerance statements, both established against the bank's principle risks and underlying risk hierarchy.

The Risk Appetite Framework is supported by the 'Risk Appetite Measures' framework. This framework details how each of the Risk Appetite Statements are monitored to identify current and future performance against stated appetite.

The Risk Appetite Framework and Risk Appetite Measures are integral to the Arbuthnot Latham Risk Management Policy.



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

Specifically, it describes and articulates the risk management and risk governance framework, methodologies, processes and infrastructure required to ensure due attention to all material risks for Arbuthnot Latham, including compliance with relevant regulatory requirements.

This Risk Management Policy applies to all the Arbuthnot Latham Group's Business Units and Support Functions and their employees.

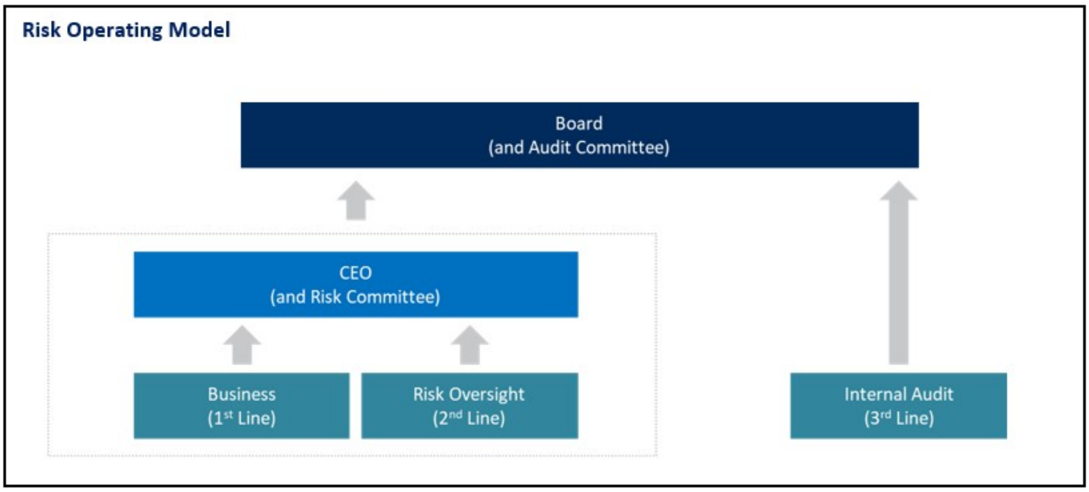
Risk Operating Model (3 Lines of Defence)
Arbuthnot Latham operates a 3 Lines of Defence model, in line with current regulatory expectations.

The business (first line) is responsible for identifying, assessing, managing and monitoring the organisation's risks. It operates independently, on a daily basis, without second line or third line intervention. First line departments also operate risk monitoring and quality assurance mechanisms to measure and manage performance, which in some cases, may be independent teams.

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

Internal audit (third line) is responsible for providing independent assurance over the organisation's governance, risk and internal control arrangements.

In addition, the subsidiary businesses also operate a 3 Lines of Defence model with the responsibility and information flows incorporating the Subsidiary Executive Management and Subsidiary Boards.



Policies
Arbuthnot Latham have a number of policies in place which help translate the bank's risk appetite into detailed guidance, factoring in relevant regulation and legislation.

The Arbuthnot Latham Policy Committee or Arbuthnot Latham Board are responsible for approving policies.

Governance, Oversight and Monitoring
In addition to the operation of the Risk Committee, ALCO and the Credit Committee, sub-committees are in place to support the provision of oversight of the management of risk throughout the business. These sub-committees include the:

- Anti-Money Laundering (AML) Committee;
- Conduct Risk Committee;
- Fraud Committee;
- Information Security Group;
- Operational Risk Committee; and
- Retail Mortgages Committee.

The second line is responsible for providing independent oversight and challenge of first line activities. This is achieved through:

- Risk dashboards and reporting presented to the Arbuthnot Latham Board, Subsidiary Boards, Risk Committee, ALCO, Credit Committee and the risk sub-committees;
- Presentations on risk spotlight topics to the Risk Committee and sub-committees; and
- Monitoring and assurance programmes.

Risk Identification and Assessment

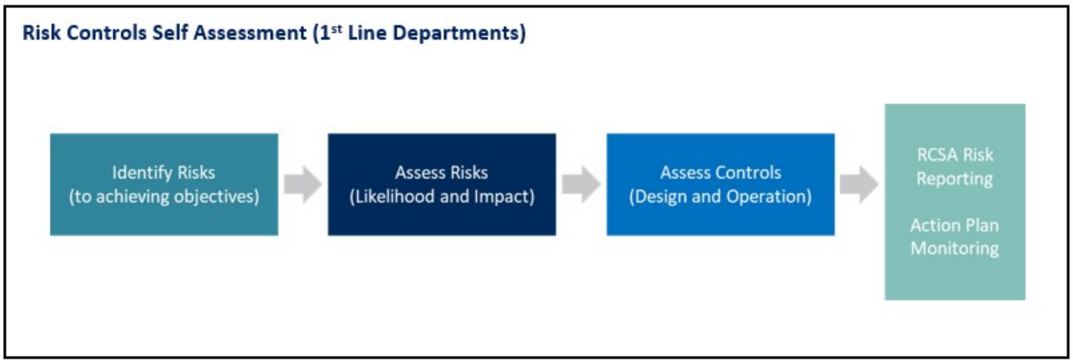
As part of Arbuthnot Latham's 3 Line of Defence model, the first line is responsible for identifying, assessing and managing the organisation's risks.

To help support this process Arbuthnot Latham has in place the following elements for risk assessment:

- **Risk Hierarchy** – used to define the bank's key sources or categories of risk. Risk identification and assessment throughout the bank is undertaken against Arbuthnot Latham's Risk Hierarchy.
- **Principal Risks** – used to define key risks for the bank which includes all types of risk such as existing and emerging risks (including emerging categories of risk), internal and external risks, financial and non-financial risks, in-house and extended enterprise risks, as well as the organisation's key sources or primary categories of risk as defined in the bank's risk hierarchy.

Systems, Process, Procedures and Controls

The Risk Controls Self-Assessment (RCSA) process is the primary means used to demonstrate and embed a systematic and disciplined approach to identify, assess and manage risks and controls at an operational level. The RCSAs are completed at a departmental level across the business.



The Risk Committee also consider emerging risks and opportunities that may create potential future changes that impact on the bank achieving its objectives and strategic goals.

Culture, Resources, Capability, Accountability and Ownership

Arbuthnot Latham considers that a strong risk management culture provides the foundation for effective risk management and helps to reinforce the Group's resilience by ensuring a holistic approach to managing risk and return at all levels of the organisation.

The Board is responsible for approving the company values and setting and maintaining an Arbuthnot Latham Group culture that is consistent with the Arbuthnot Corporate Principles. Consideration is given to expectations relating to key risk culture influences such as tone from the top, accountability, effective communication and challenge, and financial and non-financial incentives.

As part of the culture at the Group, employees are accountable for their activities and are expected to exhibit positive behaviours that maintain a strong risk culture.

Capital Resources

Arbuthnot Banking Group PLC
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The Group is subject to the Capital Requirement Regulation (EU No.575/2013) ("CRR"), which forms part of the retained EU legislation, and the PRA Rulebook for CRR firms. One of the requirements for the Group and the individual banking operation is that capital resources must be in excess of capital requirements at all times.

Capital Resources

The Group's regulatory capital is divided into two tiers:

- **Common equity Tier 1** which comprises shareholder funds less regulatory deductions for intangible assets, including goodwill, and deferred tax assets that do not arise from temporary differences.
- **Tier 2** comprises qualifying subordinated loans.

Table UK CC1, below, provides a breakdown of the Group's regulatory capital resources as at 31 December 2022 and 2021.

Template UK CC1 - Composition of regulatory own funds

		31-Dec-22	31-Dec-21
		£'000s	£'000s
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	154	154
2	Retained earnings*	212,037	201,026
3	Accumulated other comprehensive income (and other reserves)	1,086	998
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**213,277**	**202,178**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	(10)	(5)
8	Intangible assets (net of related tax liability) (negative amount)**	(32,549)	(23,869)
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) CRR are met) (negative amount)	(4,567)	(2,370)
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	(1,299)	(1,299)
27a	Other regulatory adjustments to CET1 capital *(including IFRS 9 transitional adjustments when relevant)*	523	1,600
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(37,902)	(25,943)
29	**Common Equity Tier 1 (CET1) capital**	**175,375**	**176,235**
44	**Additional Tier 1 (AT1) capital**	**0**	**0**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**175,375**	**176,235**
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	37,594	36,772
51	**Tier 2 (T2) capital before regulatory adjustments**	**37,594**	**36,772**
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**37,594**	**36,772**
58	**Tier 2 (T2) capital**	**37,594**	**36,772**
59	**Total capital (TC = T1 + T2)**	**212,969**	**213,007**

Pillar 1 Capital Requirements

In accordance with the CRR a Pillar I capital requirement, being 8% of the risk weighted exposure amount, is calculated for the following risks:

Pillar I Risk	ABG's Calculation Approach
Credit Risk	Standardised Approach
Counterparty Credit Risk	Original Exposure Method
Operational Risk	Basic Indicator Approach
Market Risk (FX)	Standardised Approach
Credit valuation adjustment	Standardised Method

The table below shows the Group's Pillar I own funds requirement and risk weighted exposure amount in accordance with Template UK OV1:

Template UK OV1 – Overview of risk weighted exposure amounts

		Risk weighted exposure amounts (RWEAs) ('000s)		Total own funds requirements ('000s)
		a	b	c
		Dec-22	Dec-21	Dec-22
1	Credit risk (excluding CCR)	1,333,060	1,257,789	106,645
2	Of which the standardised approach	1,333,060	1,257,789	106,645
6	Counterparty credit risk - CCR	13,540	2,911	1,083
UK 8b	Of which credit valuation adjustment - CVA	8,300	1,689	664
9	Of which other CCR	5,240	1,222	419
20	Position, foreign exchange and commodities risks (Market risk)	3,753	7,527	300
21	Of which the standardised approach	3,753	7,527	300
23	Operational risk	165,788	159,498	13,263
UK 23a	Of which basic indicator approach	165,788	159,498	13,263
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	-	483	-
29	**Total**	**1,516,141**	**1,427,725**	**121,291**

Capital Requirements: Credit Risk

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Pillar 1: Credit Risk

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 and is the largest component of the Group's Pillar I own funds requirement.

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").

The table below provides an analysis of credit risk exposure and risk weighted assets by CRR exposure class. It excludes exposures subject to counterparty credit risk.

Table UK CR4: Standardised Approach: Credit risk exposure and CRM effects: 31 December 2022

	Exposure classes ('000s)	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	786,011	-	968,248	2,373	-	0%
2	Regional government or local authorities						
3	Public sector entities						
4	Multilateral development banks	15,425	-	15,425	-	-	0%
5	International organisations						
6	Institutions	95,219	-	95,219	-	19,053	20%
7	Corporates	390,524	90,475	300,696	2,444	259,833	86%
8	Retail	168,570	81,886	147,659	12,346	130,920	82%
9	Secured by mortgages on immovable property	1,414,938	122,117	1,305,271	34,128	530,847	40%
10	Exposures in default	50,468	-	49,803	-	57,930	116%
11	Exposures associated with particularly high risk	16,546	6,022	15,405	1,610	25,523	150%
12	Covered bonds	154,699	-	154,699	-	15,470	10%
13	Institutions and corporates with a short-term credit	245,502	-	245,502	-	49,158	20%
14	Collective investment undertakings						
15	Equity	2,045	-	2,045	-	2,045	100%
16	Other items	240,346	-	240,346	-	242,281	101%
17	**TOTAL**	**3,580,293**	**300,500**	**3,540,318**	**52,902**	**1,333,060**	**37%**

Table UK CR4: Standardised Approach: Credit risk exposure and CRM effects: 31 December 2021

	Exposure classes ('000s)	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWAs and RWAs density	
		On-balance-sheet exposures	Off-balance-sheet exposures	On-balance-sheet exposures	Off-balance-sheet amount	RWAs	RWAs density (%)
		a	b	c	d	e	f
1	Central governments or central banks	833,006	-	920,706	10,153	-	0%
2	Regional government or local authorities						
3	Public sector entities						
4	Multilateral development banks	23,437	-	23,437	-	-	0%
5	International organisations						
6	Institutions	18,819	-	18,819	-	3,857	20%
7	Corporates	292,891	65,759	226,443	2,121	199,052	87%
8	Retail	132,204	59,377	110,699	7,147	96,760	82%
9	Secured by mortgages on immovable property	1,387,899	212,858	1,351,884	46,259	573,248	41%
10	Exposures in default	44,178	-	44,129	-	49,287	112%
11	Exposures associated with particularly high risk	16,923	3,751	16,108	743	25,277	150%
12	Covered bonds	175,630	-	175,630	-	17,563	10%
13	Institutions and corporates with a short-term credit assessment	145,349	-	145,349	-	29,070	20%
14	Collective investment undertakings						
15	Equity	3,045	-	3,045	-	3,045	100%
16	Other items	260,822	-	260,822	-	260,630	100%
17	**TOTAL**	**3,334,203**	**341,744**	**3,297,072**	**66,423**	**1,257,789**	**37%**

Pillar 2 Capital Requirements

a) Pillar 2A

Pillar 2A considers risks to the firm, which are either not captured, or not fully captured, under Pillar I.

Not all material risks can be mitigated by capital, but where capital is appropriate the Board has adopted a "Pillar I plus" approach to determine the level of capital the Group needs to hold. This method takes the Pillar I 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 I 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 Internal Capital Adequacy Assessment Process.

b) Pillar 2B

The PRA buffer (Pillar 2B) is an amount of capital firms should maintain in addition to their total capital requirement and the combined buffer.

The PRA buffer absorbs losses that may arise under a severe stress scenario, while avoiding duplication with the combined buffers. Any PRA buffer is set using three assessments:

- The stress impact of a severe but plausible scenario;
- The risk management and governance assessment; and
- Supervisory judgement.

The PRA requires all information relating to any PRA buffer to remain confidential.

Total Capital Requirement

The Group's Total Capital Requirement ("TCR"), as issued by the PRA, is the sum of the minimum capital requirements under the CRR (Pillar I: 8%) and the Pillar 2A requirement. The current TCR of the Group is 8.32%.

Combined Buffer Requirements

The combined buffer is defined as the sum of the capital conservation buffer and the countercyclical capital buffer ("CCyB").

The Capital Conservation Buffer is calculated at 2.5% of Total Risk Exposure.

The CCyB is calculated as the institution-specific CCyB rate multiplied by Total Risk Exposure. A firm's institution-specific CCyB rate consists of the weighted average of the CCyB rates that apply to exposures in the jurisdictions where the firm's relevant credit exposures are located.

The UK CCyB rate is set by the Financial Policy Committee ("FPC"). At its December 2021 meeting the FPC increased the UK CCyB rate from 0% to 1%. This rate came into effect from 13 December 2022 in line with the usual 12-month implementation period.

In July 2022 the FPC increase the UK CCyB rate from 1% to 2% and this will be effective from 5 July 2023.

Leverage Ratio

The leverage ratio is calculated as Tier 1 capital divided by the total leverage ratio exposure measure and is expressed as a percentage. The leverage ratio is complementary to the risk-based capital framework but unlike risk-weighted assets capital ratios, all exposures are weighted equally in the calculation of the leverage ratio. Therefore, the leverage ratio is not subject to the inherent errors and uncertainties that can arise from assigning risk weights in the risk-based capital framework. Under the UK leverage ratio framework 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.

The Group is below the thresholds for the UK leverage ratio framework; it has retail deposits of less than £50 billion and foreign assets of less than £10 billion. Therefore, the Group 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 which requires firms to hold sufficient Tier 1 capital to maintain, at all times, a minimum leverage ratio of 3.25%.

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 monitors its leverage ratio and adheres to this PRA expectation.

The Group's leverage ratio has been disclosed within the Key Metrics template.

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.

Throughout the year the Group's Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") were above regulatory minimum requirements.

The Group's LCR and NSFR have been disclosed within the Key Metrics template.

Remuneration Policy

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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 2022 performance year, the Group identified 37 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 2022, there were no other staff identified who are both highly remunerated and could have an impact on the Group's risk profile.

Template UK REM1 - Remuneration awarded for the financial year

			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	9	4	24	-
2		Total fixed remuneration	1,968,975	2,521,505	3,845,232	-
3		Of which: cash-based	1,968,975	2,521,505	3,845,232	-
4		(Not applicable in the UK)				
UK-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-5x		Of which: other instruments	-	-	-	-
6		(Not applicable in the UK)				
7		Of which: other forms	-	-	-	-
8		(Not applicable in the UK)				
9	Variable remuneration	Number of identified staff	1	4	20	-
10		Total variable remuneration	5,000	2,210,000	1,124,000	-
11		Of which: cash-based	5,000	2,210,000	1,124,000	-
12		Of which: deferred	-	-	-	-
UK-13a		Of which: shares or equivalent ownership interests	-	-	-	-
UK-14a		Of which: deferred	-	-	-	-
UK-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
UK-14b		Of which: deferred	-	-	-	-
UK-14x		Of which: other instruments	-	-	-	-
UK-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		**1,973,975**	**4,731,505**	**4,969,232**	**-**

Template UK REM4 - Remuneration of 1 million EUR or more per year

		a
	EUR	Identified staff that are high earners as set out in Article 450(i) CRR
1	1 000 000 to below 1 500 000	1
2	1 500 000 to below 2 000 000	1
3	2 000 000 to below 2 500 000	-
4	2 500 000 to below 3 000 000	1
5	3 000 000 to below 3 500 000	-
6	3 500 000 to below 4 000 000	-
7	4 000 000 to below 4 500 000	-
8	4 500 000 to below 5 000 000	-
9	5 000 000 to below 6 000 000	-
10	6 000 000 to below 7 000 000	-
11	7 000 000 to below 8 000 000	-
x	To be extended as appropriate, if further payment bands are needed.	

Template UK REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

		a	b	c	d	e	f	g	h	i	j
		Management body remuneration			Business areas						
		MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total
1	Total number of identified staff										37
2	Of which: members of the MB	9	4	13							
3	Of which: other senior management				-	3	2	10	9	-	
4	Of which: other identified staff				-	-	-	-	-	-	
5	Total remuneration of identified staff	1,973,975	4,731,505	6,705,480	-	796,000	703,758	2,302,735	1,166,739	-	
6	Of which: variable remuneration	5,000	2,210,000	2,215,000	-	230,000	90,000	588,000	216,000	-	
7	Of which: fixed remuneration	1,968,975	2,521,505	4,490,480	-	566,000	613,758	1,714,735	950,739	-	

Severance payments

There were no severance payments awarded in previous periods paid out in 2022. £238,588 severance pay was awarded and paid out to one individual during the year.

Decision making process used to determine 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. The ABG Remuneration Committee met twice during the year and the AL Remuneration Committee met six times. Both Committees are required to meet formally at least once per year and otherwise as required.

The present members of the ABG Remuneration Committee are Sir Henry Angest, Sir Nigel Boardman and Sir Alan Yarrow. The present members of the AL Remuneration Committee are Sir Nigel Boardman (its Chairman), Sir Henry Angest, Angela Knight, 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.