

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this document or about the action you should take, you should immediately seek your own financial advice from your stockbroker or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your Ordinary Shares on or before 31 August 2011 (the ex-dividend date), please send this document, together with the accompanying Form of Election and Form of Proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.

If you have sold or transferred some (but not all) of your Ordinary Shares on or before 31 August 2011 (the ex-dividend date), you should contact your stockbroker, bank or other agent through whom the sale or transfer was effected without delay who will then advise you on how to deal with this circular. Except as set out in this circular, the circular and the accompanying Form of Election and Form of Proxy should not be forwarded to or sent in, into or from the United States, Canada or Australia.

Arbuthnot Banking Group PLC

(Incorporated and registered in England and Wales
under the Companies Act 1985 with registered number 01954085)

Notice of General Meeting and Scrip Dividend Offer

A Notice convening a General Meeting of the Company to be held at 3.00 p.m. on 10 October 2011 at Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR is set out at the end of this document. Shareholders are requested to complete and return the enclosed Form of Proxy to the Registrars, Capita Registrars, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible but in any event, to be valid, so as to arrive no later than 3.00 p.m. on 8 October 2011. The return of a Form of Proxy will not preclude a Shareholder from attending and voting at the General Meeting in person should he subsequently decide to do so.

Elections from Shareholders who hold their Ordinary Shares in certificated form to receive New Shares under the Scrip Dividend Offer must be returned to Capita Registrars at the above address. Elections from Shareholders who hold their Ordinary Shares in CREST should comply with the instructions in Part II of this circular. All elections should be received by not later than 3.00 p.m. on 5 October 2011. If you wish to receive the whole of the Interim Dividend of 11 pence per Ordinary Share in cash, you should take no action in respect of the Form of Election.

12 September 2011

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Definitions

"AIM"

the AIM Market, a market operated by The London Stock Exchange;

"Company"

Arbuthnot Banking Group PLC;

"Daily Official List"

the daily record setting out the prices of all trades in securities conducted on The London Stock Exchange;

"Directors"

the Directors of the Company;

"Euroclear"

Euroclear UK & Ireland Limited;

"Form of Election"

the form of election in respect of the Scrip Dividend Offer enclosed with this circular;

"Form of Proxy"

the form of proxy in respect of the General Meeting enclosed with this circular;

"General Meeting"

the general meeting of the Company further details of which are set out in the notice of General Meeting enclosed with this circular;

"Interim Dividend"

the interim dividend of the Company in respect of the six months to 30 June 2011;

"New Shares"

Ordinary Shares, credited as fully paid, offered pursuant to the Scrip Dividend Offer;

"Ordinary Shares"

ordinary shares of 1 pence each in the capital of the Company;

"Record Date"

2 September 2011;

"Registrars"

Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;

"the Resolutions"

the resolutions to be proposed at the General Meeting as set out in the notice of General Meeting on page 12 of this circular;

"Scrip Dividend Mandate Scheme"

the existing scrip dividend mandate scheme of the Company as described in more detail in Part IV of this circular;

"Scrip Dividend Offer"

the offer for a Shareholder to receive all or part of their entitlement to the Interim Dividend in Ordinary Shares outlined in Part II of this circular;

"Shareholders"

holders of Ordinary Shares; and

"The London Stock Exchange"

London Stock Exchange plc.

Timetable of Events

Ex Dividend Date	31 August 2011
The five dealing days on which the value of Ordinary Shares for the purposes of the Scrip Dividend Offer was calculated	31 August 2011 to 6 September 2011
Record Date	2 September 2011
Proxies to be returned by	3.00 p.m. on 8 October 2011
Final time and date for receipt of completed Forms of Election and CREST elections	3.00 p.m. on 5 October 2011
General Meeting	3:00 p.m. on 10 October 2011
Interim Dividend warrants despatched	2 November 2011
CREST member accounts credited with New Shares	2 November 2011
First day of dealings in New Shares	2 November 2011
Certificates for New Shares in respect of Scrip Dividend elections despatched	2 November 2011

Action to be taken in connection with the Scrip Dividend Offer

A. To receive the Interim Dividend entirely in cash:

- Take no action on the Form of Election or through CREST.
- You will receive your dividend in cash in the normal way.

If you hold your Ordinary Shares in certificated form:

B. To receive your maximum entitlement to New Shares in respect of the Interim Dividend:

- Sign and date the Form of Election and return it to the Registrar by no later than 3:00 p.m. on 5 October 2011.

C. To receive the Interim Dividend in a combination of New Shares and cash:

- Insert in Box 4 on the Form of Election the number of Ordinary Shares on which you wish to receive New Shares instead of a cash dividend. This figure must be no greater than your holding of Ordinary Shares at the Record Date. The number inserted must be a multiple of 29.43.
- Sign and date the Form of Election and return it to the Registrar by no later than 3:00 p.m. on 5 October 2011.

If you hold your Ordinary Shares in CREST you should make your elections through CREST in accordance with the instructions in Part II by no later than 3:00 p.m. on 5 October 2011.

Action to be taken in respect of the Scrip Dividend Mandate Scheme

If you hold your Ordinary Shares in certificated form, to elect for the Scrip Dividend Mandate Scheme in respect of any future dividend for which a scrip dividend alternative is offered:

- Read the notes in Part IV carefully (which explain the effect of the Scrip Dividend Mandate Scheme).
- Mark Box 5 on the Form of Election with an "X".
- Sign and date the Form of Election and return it to the Registrar.

I. Letter from The Chairman of The Board of Directors

Arbuthnot Banking Group PLC
(Incorporated and registered in England and Wales
under the Companies Act 1985 with registered number 01954085)

Directors:

Henry Angest (Chairman)
James Cobb (Group Finance Director)
Neil Kirton
Ruth Lea
Paul Lynam
Sir Christopher Meyer
Dean Proctor
Andrew Salmon (Chief Operating Officer)
Atholl Turrell
Robert Wickham (Deputy Chairman)

Registered Office:

One Arlestone Way
Solihull
B90 4LH

12 September 2011

To Ordinary Shareholders of Arbuthnot Banking Group PLC (the "Company")

Dear Shareholder

General Meeting and Scrip Dividend Offer

1. Introduction

You will find set out on page 12, notice of a General Meeting of the Company, which is to be held at 3.00 p.m. on 10 October 2011 at Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR.

The purpose of this document is to provide Shareholders with details of the business to be considered at the General Meeting and to provide you with information on the Scrip Dividend Offer. The General Meeting has been called to authorise the directors to offer Shareholders the option to receive part or all of the Interim Dividend in Ordinary Shares (the Scrip Dividend Offer).

2. Interim Dividend

On 28 July 2011, the Directors declared an interim dividend of 11 pence per Ordinary Share in respect of the six months to 30 June 2011 to the Shareholders on the register at the close of business on the Record Date.

3. Scrip Dividend Offer

We are therefore making available the Scrip Dividend Offer for Shareholders. A scrip dividend enables Shareholders to buy additional Ordinary Shares and it provides greater flexibility to the Company and the members of its group in order to maintain its long held policy of paying a significant dividend while at the same time pursuing a long term investment strategy.

The Scrip Dividend Offer gives holders of Ordinary Shares the opportunity to increase their shareholding in the Company without paying any dealing costs or stamp duty. Whether or not you decide to elect to receive Ordinary Shares in lieu of the cash dividend will depend upon your own circumstances and, in particular, the tax effect of such action, as outlined in Part III of this document. If you are in any doubt as to the action you should take, you are strongly recommended to take professional advice.

The Scrip Dividend Offer is in all respects subject to and conditional upon the passing of Resolution 1 at the General Meeting.

Holders of Ordinary Shares who so elect pursuant to the Scrip Dividend Offer will receive one New Share for every 29.43 Ordinary Shares held by them on the Record Date, instead of the cash dividend on those Ordinary Shares.

If you hold your Ordinary Shares in certificated form and you wish to receive New Shares in lieu of the Interim Dividend in respect of all or part of your shareholding, you should complete the Form of Election and return it to the Registrars, Capita Registrars, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be received by them no later than 3:00 p.m. on 5 October 2011. If you wish to receive the whole of the Interim Dividend in cash, you should not take any action in respect of the Form of Election and no CREST election should be submitted. Further information on how to complete the Form of Election is set out below. If you hold your Ordinary Shares in CREST and you wish to receive New Shares in lieu of the Interim Dividend in respect of all or part of your shareholding, you should make your election through CREST in accordance with the instructions in Part II no later than 3:00 p.m. on 5 October 2011.

If all holders of Ordinary Shares eligible to receive the Interim Dividend were to elect to receive the Interim Dividend in cash, the total cash dividend payable by the Company would be approximately £1,650,000 in respect of which the applicable tax credit

available to shareholders would be approximately £183,500 (on the assumption that the recipients of such Interim Dividend are companies or other persons resident in the United Kingdom). If, instead, all holders of Ordinary Shares, eligible to do so, were to elect to receive the Interim Dividend in the form of New Shares, 496,749 Ordinary Shares would be issued (ignoring any reduction in respect of fractions), representing an increase of approximately 3 per cent. in the Company's issued share capital.

The entitlement of Shareholders who elect for the Scrip Dividend Option was calculated using the average of the middle market quotations of an Ordinary Share as shown in the Daily Official List published by The London Stock Exchange for the five dealing days from and including the ex-dividend date, being 31 August 2011. On the basis of the average of the middle market quotations of an Ordinary Share as shown in the Daily Official List published by The London Stock Exchange for the five dealing days from and including 31 August 2011 (being the last practicable date prior to the publication of this circular), a Shareholder electing to accept the Scrip Dividend Offer rather than cash would receive one new Ordinary Share for every 323.7 pence otherwise payable as a cash dividend on Ordinary Shares registered in his name on the Record Date in respect of which he has elected to accept the Scrip Dividend Offer. For the avoidance of doubt, the actual entitlement of Shareholders who elect to accept the Scrip Dividend Offer may be greater or lower than this illustrative amount, depending upon the Company's share price at the relevant time.

Fractions of a share cannot be issued. No cash payment will be made in respect of any fraction of an Ordinary Share on which an election is made.

Applications will be made for the New Shares to be admitted to trading on AIM ("Admission"). The Scrip Dividend Offer is conditional upon Admission becoming effective on or before 2 November 2011. If this condition is not met the Scrip Dividend Offer may, at the discretion of the Directors, be withdrawn and dividends paid in cash to all Shareholders.

Further details of the Scrip Dividend Offer and an outline of the taxation consequences are set out in Parts II and III to this circular and should be read carefully.

4. General Meeting

Enclosed with this circular is a notice of a general meeting of the Company to be held at 3.00 p.m. on 10 October 2011 at Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR.

The General Meeting has been called in order to:

- (a) seek the approval of Shareholders to the Scrip Dividend Offer in respect of the Interim Dividend; and
- (b) authorise the Directors to offer a scrip dividend alternative in respect of any future dividends as may be declared.
This resolution will expire at the conclusion of the Annual General Meeting of the Company in 2013.

Further information on the action you should take in respect of the General Meeting is set out below.

5. Scrip Dividend Mandate Scheme

At the Annual General Meeting of the Company held on 14 May 2008, the Company introduced the Scrip Dividend Mandate Scheme. This Scrip Dividend Mandate Scheme allows Shareholders to elect to receive Ordinary Shares automatically in respect of all future dividends declared for which a scrip dividend alternative is offered.

Those Shareholders who have given the Company a mandate under the terms of the Scrip Dividend Mandate Scheme will, subject to the terms of the Scrip Dividend Mandate Scheme, automatically receive New Shares in respect of their entire entitlement to the Interim Dividend.

If any Shareholder who holds their Ordinary Shares in certificated form wishes to participate in the Scrip Dividend Mandate Scheme in respect of any future dividends for which a scrip dividend alternative is offered but has not given the Company a mandate under the terms of that scheme, they should mark Box 5 on the Form of Election with an "X", sign and date it and return it to the Registrar at the above address. If you have previously elected to participate in the Scrip Dividend Mandate Scheme, your previous election will continue under the terms of the Scheme and you do not need to complete Box 5. The Scrip Dividend Mandate Scheme is only available to Shareholders who hold their Ordinary Shares in certificated form. If you hold your Ordinary Shares in CREST, you should make your election through CREST in accordance with the instructions in Part II, no later than 3:00 p.m. on 5 October 2011 in respect of the Scrip Dividend Offer.

Shareholders who hold Ordinary Shares in certificated form and who wish to accept the Scrip Dividend Offer should also complete the other relevant Boxes on the Form of Election in accordance with paragraph 7 below.

6. Further Information

Your attention is drawn to the further information set out in Parts II and III of this document.

7. Action to be taken by Shareholders in relation to the General Meeting:

Shareholders will find enclosed with this document a Form of Proxy for use at the General Meeting. Whether or not Shareholders intend to be present at the General Meeting, they are requested to complete and return the Form of Proxy, in accordance with the instructions printed thereon, as soon as possible and in any event, to be valid so as to be received by the Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time fixed for the General Meeting. The completion and return of the Form of Proxy will not preclude Shareholders from attending the General Meeting and voting in person should they wish to do so.

In relation to the Scrip Dividend Offer:

A. To receive the Interim Dividend entirely in cash:

- Take no action on the Form of Election or through CREST.
- You will receive your dividend in cash in the normal way.

If you hold your Ordinary Shares in certificated form:

B. To receive your maximum entitlement to New Shares in respect of the Interim Dividend:

- Sign and date the Form of Election and return it to the Registrars by no later than 3.00 p.m. on 5 October 2011.

C. To receive the Interim Dividend in a combination of New Shares and cash:

- Insert in Box 4 on the Form of Election the number of Ordinary Shares on which you wish to receive New Shares instead of a cash dividend. This figure must be no greater than your holding of Ordinary Shares at the Record Date. The number inserted must be a multiple of 29.43.
- Sign and date the Form of Election and return it to the Registrars by no later than 3.00 p.m. on 5 October 2011.

If you hold your Ordinary Shares in CREST you should make your elections through CREST in accordance with the instructions in Part II by no later than 3:00 p.m. on 5 October 2011.

Action to be taken in respect of the Scrip Dividend Mandate Scheme

If you hold your Ordinary Shares in certificated form, to elect for the Scrip Dividend Mandate Scheme in respect of any future dividend for which a scrip dividend alternative is offered:

- Read the notes in Part IV carefully (which explain the effect of the Scrip Dividend Mandate Scheme).
- Mark Box 5 on the Form of Election with an "X".
- Sign and date the Form of Election and return it to the Registrar.

Recommendation

Your directors consider that the proposals set out above are in the best interests of the Company and its Shareholders as a whole. They recommend that you vote in favour of the Resolutions as they intend to do in respect of their own beneficial holdings. My present personal intention in respect of my personal shareholding is to take up at least 269,040 Ordinary Shares under the Scrip Dividend Offer should Resolution 1 be passed.

Yours sincerely

Henry Angest
Chairman

II. Details of the Scrip Dividend Offer

1. Terms of the Election

Shareholders who were on the register of members at the close of business on 2 September 2011 may elect to receive one New Share, credited as fully paid, for every 29.43 Ordinary Shares registered in their names on that date in place of the Interim Dividend of 11 pence per Ordinary Share for the six months to 30 June 2011. The right to elect is not transferable.

The election may be made by Shareholders in respect of all or part of their holding of Ordinary Shares. The election should be in respect of a multiple of 29.43 Ordinary Shares. No fraction of a new Ordinary Share will be allotted. No cash dividend will be paid on so much of your holding as exceeds the multiple of 29.43 in respect of which an election is made.

The manner in which elections will be dealt with will be governed by the form in which shareholdings are held at the Record Date (see paragraphs 6 to 8 below).

2. Fractional Entitlements

No fraction of a New Share will be allotted. The fractional entitlement is the difference between the full cash dividend payable on the shareholding and the value of the New Shares, which is calculated by multiplying the number of New Shares by the cash equivalent Ordinary Share price. No cash dividend will be paid where the number of Ordinary Shares held in respect of which an election is made is not divisible by 29.43.

3. Taxation

The taxation consequences of an election to receive New Shares in lieu of a cash dividend depend on Shareholders' individual circumstances. A summary of the likely tax consequences for United Kingdom resident shareholders is set out in Part III. If you are in any doubt as to your tax position, you should consult your professional adviser before taking any action.

4. Overseas Ordinary Shareholders

The opportunity to elect to receive New Shares in place of the cash dividend is not being offered to, or for the account of, any citizen, national or resident of the United States, Canada or Australia, any corporation, partnership or other entity created or organised in, or under the laws of, the United States, Canada or Australia, or any political sub division of these countries, or with registered address in any of these countries or any estate or trust, the income of which is subject to United States federal or Canadian or Australian income taxation regardless of its source. "United States" means the United States of America (including the District of Columbia). Reference to the United States, Canada and Australia include their territories, possessions and all areas subject to their jurisdiction.

No person receiving a copy of this circular and/or the Form of Election and/or the Form of Proxy in any territory other than the United Kingdom may treat the same as constituting an invitation to him unless in such territory such an invitation could lawfully be made to him without compliance with any registration or other legal requirements. It is the responsibility of any such person wishing to elect to receive New Shares to satisfy himself as to the full observance of the laws of such territory, including obtaining any governmental or other consents which may be required and observing any other formalities needing to be observed in such territory.

5. If you have received more than one Form of Election

If your Ordinary Shares are registered in more than one holding and as a result you have received more than one Form of Election, they will be treated for all purposes as separate holdings and you should complete each Form of Election accordingly (unless you wish and are able before 3:00 p.m. on 5 October 2011 to arrange with the Registrars to have such holdings consolidated into one holding). If you have shareholdings in certificated form and in CREST they will be treated for all purposes as separate holdings and may not be consolidated.

6. If you have recently bought Ordinary Shares

If you bought Ordinary Shares in the Company before 31 August 2011 (the date on which the quotation for such Ordinary Shares became ex dividend), but such Ordinary Shares are not included in the number shown in Box 1 on the Form of Election and you wish to elect to receive New Shares instead of the cash dividend in respect of those Ordinary Shares, you should consult your stockbroker or other adviser without delay. If no instruction is received in respect of those Ordinary Shares, you will receive the dividend in cash.

7. If you have recently sold Ordinary Shares

If you have sold all of your holding of Ordinary Shares before 31 August 2011 (the date on which the quotation for such shares became ex dividend), you should pass this circular and the Form of Election and the Form of Proxy to your stockbroker or other adviser without delay. If you have sold some of your holding of Ordinary Shares but those Ordinary Shares are nevertheless included in the number shown in Box 1 on the Form of Election, you should contact your stockbroker or other adviser without delay who will advise you how the Form of Election and the Form of Proxy should be dealt with.

8. If your Ordinary Shares are held in CREST

If your shareholding is in CREST (and was in CREST as at the Record Date), you can only elect to receive the Interim Dividend in the form of New Shares by means of the CREST procedure to effect such an election. No other method of election will be permitted and will be rejected. By doing so, such CREST Shareholders confirm their election and their acceptance of these terms.

If you are a CREST sponsored member, you should consult your CREST sponsor, who will be able to take appropriate action on your behalf. All elections made via the CREST system should be submitted using the Dividend Election Input Message in accordance with the procedures as stated in the CREST Reference Manual. The Dividend Election Input Message submitted must contain the number of Ordinary Shares on which the election is being made. If the relevant field is left blank or completed with zero the election will be rejected. If you enter a number of Ordinary Shares greater than the holding in CREST on the Record Date, the election will be applied to your total holding held as at the Record Date. Evergreen elections will not be permitted. If you wish to receive New Shares instead of cash in respect of future dividends for which a scrip dividend alternative is offered, you must complete a Dividend Election Input Message on each occasion otherwise you will receive your dividend in cash. Subject to a contrary instruction in each case, elections via CREST should be received by CREST no later than 3.00 p.m. on such date that is at least 20 business days before the dividend payment date for the relevant dividend in respect of which you wish to make an election.

Once an election is made using the CREST Dividend Election Input Message it cannot be amended. Therefore, if a CREST Shareholder wished to change their election, the previous election would have to be cancelled.

9. Delivery and listing of the New Shares

Applications will be made to The London Stock Exchange for the admission of the New Shares to trading on AIM. The New Shares are to be allotted pursuant to valid elections for the Scrip Dividend Offer. The New Shares will on issue rank *pari passu* in all respects with the existing issued Ordinary Shares and will qualify for all future dividends.

Subject to satisfaction of the conditions set out in paragraph 10 below, definitive share certificates for the New Shares are expected to be posted, at the risk of the person entitled thereto, on 2 November 2011 to Shareholders who held their Ordinary Shares in certificated form on 2 September 2011. Shareholders who held their Ordinary Shares in CREST on 2 September 2011 will, at their risk, have their CREST member accounts credited with the New Shares. The Company will require its Registrars to instruct Euroclear to credit CREST member accounts on 2 November 2011. Dividend cheques for any cash dividend due are expected to be posted on or before the same day. Dealings in the New Shares are expected to begin on 2 November 2011.

10. Conditions

The Directors reserve the right at any time prior to Admission, and at their discretion, to withdraw the Scrip Dividend Offer and pay the Interim Dividend entirely in cash. In particular (but without limit) the Directors may do so if:

- (a) the Scrip Dividend Offer is not approved; or
- (b) the New Shares to be allotted pursuant to elections for the Scrip Dividend Offer in lieu of the Interim Dividend are not admitted to trading on AIM and such admissions do not become effective.

11. General

Further copies of this circular and of the Form of Election may be obtained from the Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or from the Company Secretary at Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR up to 10 October 2011.

12. Scrip dividend timetable

Please see page 2 for further details of the timetable.

III. Taxation Implications of The Scrip Dividend Offer

The precise tax consequences for a shareholder electing to receive New Shares in lieu of a cash dividend will depend upon that shareholder's individual circumstances. The following statements are intended to apply only as a general guide to current UK tax law and to the current practice of HM Revenue & Customs in the UK (both of which are subject to changes, possibly with retrospective effect). They are intended to apply only to shareholders in the UK who are resident or ordinarily resident in the UK for tax purposes, who hold the Ordinary Shares as investments and who are the beneficial owners of the Ordinary Shares.

This summary of the likely taxation treatment is not exhaustive, and any shareholders who are in any doubt as to their tax position regarding the election to receive New Shares in lieu of a cash dividend, or who are subject to tax in a jurisdiction other than the UK should consult their own tax advisers.

1. UK Resident Companies

A corporate shareholder resident in the UK for tax purposes will not normally be subject to tax on any dividend received from the Company (including the receipt of the New Shares). However, the New Shares will not be treated as franked investment income and, as a result, the receipt of the New Shares will not reduce any shadow advanced corporation tax treated as paid by the corporate shareholder on its own distributions.

For the purposes of corporation tax on chargeable gains, no consideration will be treated as having been paid for the New Shares. The receipt of New Shares will be treated as a bonus issue and accordingly the New Shares will be treated as having been acquired as and when the existing shares in the enlarged holding were acquired. The calculation of any chargeable gain on disposal of the enlarged holding will, therefore, be made by reference to the base cost of the original holding only.

2. UK Resident Individuals

To the extent that UK resident individual shareholders elect to take New Shares under the Scrip Dividend Offer instead of a cash dividend, they will, subject to the comments in paragraph 4 of this Part III, be treated as having received gross income of an amount which, when reduced by income tax at a rate of 10%, is equal to the cash dividend (the "cash equivalent") which would have been received had they not elected to take up the New Shares. For example, if an individual receives New Shares under the Scrip Dividend Offer worth £90 instead of a cash dividend of £90, he will be treated as receiving gross income of £100 and as having paid tax of £10. Individuals, who after taking into account their receipt of New Shares, pay income tax at a rate no higher than the basic rate, will have no further liability to tax in respect of the receipt of New Shares under elections made pursuant to the Scrip Dividend Offer.

Individuals, whose total income for tax purposes (after taking into account the gross amount of income which they are treated as having received as mentioned above) exceeds the threshold for the higher rate of income tax, will be liable to tax at the dividend higher rate (currently 32.5% or 42.5% where the additional rate applies – see below) on the gross income which they are treated as having received as described above. Thus, in the case of a higher rate taxpayer, in the above example the individual will be liable to tax of £32.50 (i.e. £100 at 32.5%) less the £10 tax treated as having been paid, leaving him with a net tax liability of £22.50 still to pay.

From 6 April 2010, additional rate taxpayers are required to pay tax at 42.5% on gross dividend income exceeding £150,000. In the case of the additional rate taxpayer, therefore, in the above example the individual will be liable to tax of £42.50 (i.e. £100 at 42.5%) less the £10 tax treated as having been paid, leaving him with a net tax liability of £32.50. For these purposes, dividend income is treated as the top slice of an individual's income.

For capital gains tax purposes, if an election to receive New Shares under the Scrip Dividend Offer instead of a cash dividend is made, the New Shares will be treated as having been acquired for a consideration equal to the cash equivalent, subject to the comments in paragraph 4 of this Part III.

3. **UK Resident Trusts**

Where trustees who are liable to pay income tax at the dividend trust rate (currently 42.5%) elect to receive New Shares under the Scrip Dividend Offer instead of the cash dividend, the same grossing up procedure as outlined above for individuals will apply in computing dividend income subject to tax, so that if trustees received New Shares worth £90 instead of a cash dividend of £90, they would be treated as having received gross income of £100 and as having paid tax of £10. Accordingly, they will have a further tax liability of £32.50.

For capital gains tax purposes, if an election to receive New Shares under the Scrip Dividend Offer instead of a cash dividend is made, the New Shares will be treated as having been acquired for a consideration equal to the cash equivalent, subject to the comments in paragraph 4 of this Part III.

4. **Market Value**

Where the market value of the New Shares on the first day of dealings on The London Stock Exchange differs substantially (i.e. 15% or more above or below) from the cash equivalent of one New Share, HM Revenue & Customs will substitute the market value as the cash equivalent for the purpose of calculating any taxes due. If this occurs, you will be sent a notice of the revised valuation in due course. This revised value is used for both income tax and capital gains tax purposes.

5. **Cash Element**

If a UK shareholder receives dividends in the form of cash, the cash dividend will be treated as a conventional dividend for UK taxation purposes.

6. **Stamp Duty and Stamp Duty Reserve Tax**

A shareholder electing to take New Shares in lieu of a cash dividend will not be liable to pay stamp duty or stamp duty reserve tax on those shares acquired.

IV. Scrip Dividend Mandate Scheme

The Scrip Dividend Mandate Scheme (referred to in this Part IV as “the Scheme”) was introduced in 2008 for the convenience of those Shareholders who would like to take Ordinary Shares instead of cash as a matter of routine and enables them to elect to receive new Ordinary Shares automatically in respect of all future dividends declared for which a scrip dividend alternative is offered. The Scheme is only available to Shareholders who hold their Ordinary Shares in certificated form. Shareholders who hold their Ordinary Shares in CREST should comply with the instructions in Part II in respect of all future dividends for which a scrip dividend alternative is offered.

The Scheme is entirely optional, but any scrip dividend mandate given will remain valid in respect of all dividends declared for which a scrip dividend alternative is offered until revoked by the shareholder in writing.

If you wish to enter into a scrip dividend mandate to authorise the Company to allot new Ordinary Shares in respect of all future dividends, you should complete the Form of Election by placing an “X” in Box 5 and return the Form of Election, signed and dated, to the Registrars.

RULES OF THE SCHEME

1. Terms of the Scheme

Shareholders on the register of members at the close of business on the record date for each dividend for which a scrip dividend alternative is offered may, subject to the rules set out below, by signing and returning a Form of Election with an election for the scrip dividend mandate duly completed, receive Ordinary Shares, credited as fully paid, instead of receiving dividends in cash in whole or in part. A Shareholder who completes and returns a valid scrip dividend mandate is referred to as a “Participant”. No acknowledgement of receipt of a scrip dividend mandate will be given.

A Shareholder may only elect for the Scheme in respect of the whole of his/her shareholding. An election will apply to all Ordinary Shares in that Shareholder’s name at the record date for each dividend. Accordingly, an election will also apply to any additional Ordinary Shares acquired by a shareholder, less any Ordinary Shares disposed of, since the date on which the right of election was exercised. All new Ordinary Shares allotted will automatically increase the shareholding on which the next scrip dividend is calculated. Separate registered holdings of a Participant will be regarded as separate holdings for the purposes of the Scheme. Participants can arrange for such holdings to be consolidated by contacting the Registrars, except that where Participants’ Ordinary Shares are registered partly in certificated form and partly in CREST, the Company will treat such holdings for all purposes as if they were separate holdings.

2. Fractions

No Participant can receive a fraction of a new Ordinary Share

No cash dividend will be paid on the small number of Ordinary Shares on which no election is possible. This is a variation to the terms of the Scheme introduced in 2008 and will apply to all participants in the Scheme with effect from the date of this circular.

3. Exercise and Cancellation of an Election

Shareholders may elect to participate in the Scheme by returning a Form of Election to the Registrars with the election for the Scheme duly completed. Sufficient time should be allowed for postal delivery. The election will only be effective for all future dividends for which a right of election is offered and will not apply to the Scrip Dividend Offer. Shareholders who wish to accept the Scrip Dividend Offer should also complete the other relevant Boxes on the Form of Election in accordance with the instructions in Part I.

A Participant may at any time cancel the scrip dividend mandate by notification in writing to the Registrars. If received by the Registrars after the latest time for receipt of Forms of Election for a particular dividend, the cancellation will take effect for the following dividend.

Receipt of notice of the death of a Participant will cancel his or her scrip dividend mandate unless the deceased is one of joint Participants in which case the scrip dividend mandate will remain valid. The scrip dividend mandate relating to a shareholding which is disposed of in its entirety will be cancelled upon registration of the transfer.

4. Basis of Allotment

The entitlement of a Participant to new Ordinary Shares in respect of a particular dividend will be calculated on the basis of the amount of the dividend for which the scrip dividend alternative is offered and a price per Ordinary Share. This price will be equal to the average of the middle market quotations for an Ordinary Share, derived from the Daily Official List, for the five consecutive dealing days commencing on the ex-dividend date for that dividend.

In order to protect Participants against any major and sudden fall in share prices, mandates will be automatically suspended in

respect of a particular dividend if the price of an Ordinary Share on the final date for receipt of Forms of Election for that dividend has fallen by 10 per cent. or more below the price per Ordinary Share mentioned above. The Ordinary Share price on each such date will be the middle market quotation for that day derived from the Daily Official List. Mandates will remain in force if the Ordinary Share price falls below that level after the final date for receipt of Forms of Election for that dividend.

5. Overseas Shareholders

The opportunity to elect for the Scheme is not being offered to, or for the account of, any citizen, national or resident of the United States, Canada or Australia, any corporation, partnership or other entity created or organised in, or under the laws of the United States, Canada or Australia, or any political sub-division of these countries, or with a registered address in any of these countries or any estate or trust, the income of which is subject to United States federal or Canadian or Australian income taxation regardless of its course. "United States" means the United States of America (including the District of Columbia). References to the United States, Canada and Australia include their territories, possessions and all areas subject to their jurisdiction.

Shareholders who are residents, citizens or nationals of any other country outside the United Kingdom or a nominee for such persons may only elect to receive new Ordinary Shares if the scrip dividend alternative can lawfully be offered to them or accepted by them under the laws of the relevant jurisdiction and in both cases without the Company being required to comply with any governmental or regulatory procedures or any similar formalities. Such shareholders should inform themselves about and observe any applicable legal requirements, including the obtaining of any governmental or other consents which may be required, and comply with any other necessary formalities. Shareholders who are based in Ireland must follow the guidance outlined in this paragraph should they seek to participate in the Scrip Dividend Offer.

Participation in the Scheme is subject to a Participant continuing to meet the above conditions. Participants who no longer meet such conditions are responsible for cancelling their participation in accordance with paragraph 3 above immediately their eligibility to participate in the Scheme ceases.

The Company reserves the right to suspend or terminate the operation of the Scheme in respect of a Participant if it considers that the above conditions have not been satisfied in connection with the relevant Participant's election for or continuing participation in the Scheme.

Receipt of a Form of Election will not constitute an invitation to make such an election in those jurisdictions in which it would be illegal to extend such an invitation and, in such circumstances, a form of Election is sent for information only.

6. Issuing and Listing of New Ordinary Shares

The Company will apply to the London Stock Exchange for admission of all new Ordinary Shares allotted to trading on AIM.

Subject to the admission of the new Ordinary Shares to AIM becoming effective and the satisfaction of any other conditions, share certificates for the new Ordinary Shares will be issued and posted to Participants who hold their Ordinary Shares in certificated form at the relevant record date, at their risk, at or about the same time as the cheques in respect of cash dividends. Similarly, Participants who hold their Ordinary Shares in CREST on the relevant record date, will, at their risk, have their CREST member accounts credited with the new Ordinary Shares at that time. Dealings in the new Ordinary Shares will normally begin on the due date for the payment of dividends.

The new Ordinary Shares will, on issue, rank *pari passu* in all respect with the then existing Ordinary Shares and will qualify for all future dividends.

In the event that the new Ordinary Shares are not admitted to AIM on or before the due date for payment of any dividend or any other condition is not satisfied, the election for the scrip dividend alternative will be void in respect of that dividend and Participants will receive their full dividend in cash as soon as practicable.

7. Entitlement Statements

The Scheme described in these rules may be amended, suspended or terminated by the directors of the Company at any time without notice to Participants individually although advice of any such action will normally be sent to all Ordinary Shareholders. In the case of amendment, a Participant will be deemed to have elected to continue under the amended Scheme unless the Registrars receive written notice of cancellation pursuant to paragraph 3 above. The operation of the Scheme is subject to the directors' decision to make an offer of new Ordinary Shares instead of cash in respect of any particular dividend and to the terms and conditions of such an offer.

If the directors decide not to offer new Ordinary Shares instead of cash in respect of any particular dividend or the terms and conditions of such an offer are not satisfied, the cash dividend will be paid in the usual way.

Notice of General Meeting

Arbuthnot Banking Group PLC
(Incorporated and registered in England and Wales
under the Companies Act 1985 with registered number 01954085)

Notice is hereby given that a General Meeting of Arbuthnot Banking Group PLC (“the Company”) will be held at Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR at 3.00 p.m. on 10 October 2011.

To consider and, if thought fit, pass the following resolutions which will be proposed as special resolutions.

1. That the Directors be generally and unconditionally authorised pursuant to Article 119.3 of the articles of association of the Company, with the rights and powers set out in such Article, to offer the holders of ordinary shares of 1 pence each in the capital of the Company the right to elect (in whole or in part) to receive further shares of that class, credited as fully paid, instead of cash in respect of the Interim Dividend for the six months to 30 June 2011 on the terms and subject to the conditions set out in the circular to the shareholders of the Company dated 12 September 2011.
2. That the Directors be generally and unconditionally authorised pursuant to Article 119.3 of the articles of association of the Company, with the rights and powers set out in such Article, to offer the holders of ordinary shares of 1 pence each in the capital of the Company, to the extent and in the manner determined by the directors, the right to elect (in whole or in part) to receive further shares of that class, credited as fully paid, instead of cash in respect of any future dividends as may be declared from time to time. The authority conferred by this resolution shall expire at the conclusion of the Annual General Meeting in 2013.

By order of the Board:

J R Kaye
Company Secretary

12 September 2011

Registered Office:

One Arlestone Way
Solihull
B90 4LH

NOTES:

- (a) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered on the relevant register of members (the “Register”) for certificated or uncertificated (in CREST) shares of the Company (as the case may be) at 3:00 p.m. on 8 October 2011 (the “Specified Time”) will be entitled to attend and vote at the General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register after the Specified Time will be disregarded in determining the rights of any person to attend and vote at the General Meeting. Should the General Meeting be adjourned to a time not more than 48 hours after the Specified Time, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned General Meeting. Should the General Meeting be adjourned for a longer period, then to be so entitled, members must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned General Meeting or, if the Company gives notice of the adjourned General Meeting, at the time specified in the notice.
- (b) Any member may appoint a proxy to attend, speak and vote on his/her behalf. A member may appoint more than one proxy in relation to the General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares of the member, but must attend the meeting in person. A proxy need not be a member. Proxy Forms should be lodged with the Registrars or submitted not later than 48 hours before the time for which the General Meeting is convened. Completion of the appropriate Proxy Form does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.

Form Of Election/Mandate

Arbuthnot Banking Group PLC

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 01954085)

NAME AND ADDRESS TO GO HERE

Bar Code:

BAR CODE

Investor Code:

INVESTOR CODE

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this document or about the action you should take, you should immediately seek your own financial advice from your stockbroker or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

Shareholders who hold their Ordinary Shares in CREST should make their elections through CREST in the usual way by no later than 3:00 p.m. on 5 October 2011. If you wish to continue to receive your dividends in cash or you hold your Ordinary Shares in CREST, you should **not** complete or return this Form of Election. Forms received in respect of an account in CREST will not be accepted and will be rejected.

All enquiries concerning this Form of Election should be addressed to the Registrars, Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, telephone 0871 664 0300 (calls cost 10p per minute plus network extras).

1	2	3	4	5
Ordinary Shares of 1p each registered in your name at close of business on 2 September 2011.	Maximum number of Ordinary Shares for which an election can be made.	Should you elect for the maximum number of Ordinary Shares shown in Box 2, this will be your allotment of New Shares.	Only complete this box if you wish to elect for the scrip dividend alternative in respect of fewer Ordinary Shares than shown in Box 2 - state number*	Only mark this box with an "X" if you wish to participate in the Scrip Dividend Mandate Scheme.
00,000,000	00,000,000	00,000,000		

If you wish to receive New Shares, credited as fully paid, in respect of all or any part of your holding, you must complete and sign this form and return it to the Registrars, Capita Registrars at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU in the business reply envelope provided to arrive by no later than 3.00 p.m. on 5 October 2011. Unless this is done, you will receive the Interim Dividend on your entire holding, subject to its being approved by the Shareholders.

* Box 4 must only be completed with a whole number of Ordinary Shares which is fewer than the number shown in Box 2. The number inserted must be a multiple of 29.43. If Box 4 is completed with a greater number than the number shown in Box 2 the Registrars will treat this as an election in respect of the maximum number of Ordinary Shares shown in Box 2.

To the Directors of Arbuthnot Banking Group PLC

I/We, the undersigned, being the registered holder(s) at the date of business on 2 September 2011 of Ordinary Shares in Arbuthnot Banking Group PLC, give notice that, in respect of the number of Ordinary Shares shown in Box 2 above (or, if fewer, the number of Ordinary Shares stated in Box 4), I/we irrevocably elect to receive, instead of the Interim Dividend for the six months to 30 June 2011 of 11 pence per Ordinary Share, an allotment of New Shares, credited as fully paid, on the terms of the circular sent to me/us dated 12 September 2011 and the Articles of Association of the Company as from time to time varied, subject, inter alia, to the admission of the New Ordinary Shares to the AIM market of The London Stock Exchange becoming effective not later than 2 November 2011.

I/We hereby authorise you to send at my/our risk by first class post a definitive share certificate or to request the Registrars to instruct Euroclear Limited to credit my/our member account (as applicable) in respect of any new Ordinary Shares allotted to me/us pursuant to this Form of Election.

I/We represent and warrant to the Company that I am/we are (i) not prevented by legal, governmental or regulatory restrictions from electing to receive the New Shares; and (ii) not resident in any jurisdiction that requires the Company to comply with any governmental or regulatory procedures or other formalities arising out of my/our election to receive New Shares or where it would be illegal to extend any such invitation to make an election and I am/we are not holding the Ordinary Shares to which the election relates as nominee or trustee for a beneficial owner who is so resident.

In the case of joint holders, ALL must sign.

In the case of a corporation, this Form of Election should be executed under its common seal or be signed by a duly authorised official whose capacity should be stated.

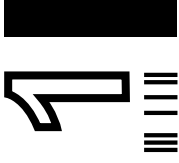
Please sign and date below.

Date:

(1) Signature	(2) Signature
Address (if different from above) BLOCK CAPITALS	Address (if different from above) BLOCK CAPITALS
(3) Signature	(4) Signature
Address (if different from above) BLOCK CAPITALS	Address (if different from above) BLOCK CAPITALS

SAME REPLY DETAILS AS PROXY?

Business Reply
Licence Number
RSBH-UXKS-LRBC



PXS
34 Beckenham Road
BECKENHAM
BR3 4TU

Arbuthnot Banking Group PLC General Meeting

To be held at: Arbuthnot House, 20 Ropemaker Street, London EC2Y 9AR on Monday 10 October 2011 at 3:00 p.m.

NAME AND ADDRESS TO GO HERE

Notes

- 1 Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on his behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided (see below). If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name (see below) the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
- 2 To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given.
- 3 Unless otherwise indicated the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
- 4 The 'Vote Withheld' option is to enable you to abstain on any particular resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a resolution.
- 5 A corporation must execute the Form of Proxy under either its common seal or the hand of a duly authorised officer or attorney, stating their capacity (e.g. director, secretary).
- 6 In the case of joint holders, the signature of any one holder will be sufficient, but the names of all the joint holders should be stated. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
- 7 The completion and return of this form will not preclude a member from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.
- 8 The form of proxy below must arrive not later than 48 hours before the time set for the meeting at the office of the Company Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU during usual business hours.
- 9 This form is issued only to the addressee(s) and is specific to the unique designated account printed hereon. This personalised form is not transferable between different (i) account holders; or (ii) uniquely designated accounts. The Company and Capita Registrars accept no liability for any instruction that does not comply with these conditions.

Form Of Proxy Arbuthnot Banking Group PLC – General Meeting

NAME(S)

Bar Code: **BAR CODE**

Investor Code: **INVESTOR CODE**

I/We being a member of the Company hereby appoint the Chairman of the meeting or (see note 1)

Event Code: **EVENT CODE**

Name of Proxy

Number of Shares

as my/our proxy to vote on my/our behalf at the Annual General Meeting of the Company to be held at 3:00 p.m. on Monday 10 October 2011 and at any adjournment thereof. I have indicated with a 'X' how I/we wish my/our votes to be cast on the following resolutions:

Please indicate by ticking this box if this proxy appointment is one of multiple appointments being made (see note 2)

Resolutions

Please mark 'X' to indicate
how you wish to vote

For
Against
Vote Withheld

1 To authorise a Scrip Dividend Payment in respect of the Interim Dividend for the year ending 31 December 2011

2 To permit payment of Scrip Dividends up to Annual General Meeting 2013

To assist with arrangements, if you intend attending the meeting in person please place a 'X' in the box opposite

Signature

Date

Business Reply
Licence Number
RSBH-UXKS-LRBC



PXS
34 Beckenham Road
BECKENHAM
BR3 4TU