

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 Arleston Way
Solihull
B90 4LH

8 April 2011

To shareholders of Arbuthnot Banking Group PLC

Dear Shareholder

2011 Annual General Meeting

I am writing to give you details of the resolutions to be proposed at this year's Annual General Meeting to be held at 3.00 p.m. on 11 May 2011 at Arbuthnot House, 20 Ropemaker Street, London, EC2Y 9AR, and which are set out in the notice of Annual General Meeting.

Shareholders should read the contents of this document in conjunction with the audited financial statements of the Company for the financial year ended 31 December 2010, together with the reports of the Directors and Auditors thereon enclosed with this document.

Annual General Meeting

The following resolutions will be proposed at this year's Annual General Meeting:-

Resolutions nos. 1 - 8 - 'Ordinary Business'

Resolutions nos. 1 – 8 to be proposed at the Annual General Meeting are all 'ordinary business' and will each be proposed as an ordinary resolution as follows:-

- (i) the receipt and adoption of the audited financial statements of the Company for the financial year ended 31 December 2010 (resolution no. 1);
- (ii) the receipt of the report of the Remuneration Committee (resolution no. 2);
- (iii) the approval of the payment of a final dividend in respect of the year ended 31 December 2010 which the Directors propose should be 12p per Ordinary Share payable on 13 May 2011 to Shareholders on the register of members on 15 April 2011 (resolution no. 3);
- (iv) the re-election of Paul Lynam, Atholl Turrell, Neil Kirton and James Cobb, who retire as Directors under Article 77 or by rotation under Article 80 of the Existing Articles, and, being eligible, offer themselves for re-election at the Annual General Meeting (resolution nos. 4 to 7);
- (v) the re-appointment of KPMG Audit Plc as auditors of the Company and the authorisation of the Directors to determine the auditors' remuneration (resolution no.8).

Biographical details of each of the directors who are proposed to be re-elected may be found on pages 16 and 17 of the Accounts.

Resolutions nos. 9 - 13 – 'Special Business'

Resolutions nos. 9 - 13 comprise 5 items of 'special business' of the Annual General Meeting and the first four of them will be proposed as special resolutions and the last as an ordinary resolution.

Resolution no. 9 – Renewal of authority of Directors to allot Ordinary Shares for cash disapplying statutory pre-emption rights

Resolution no. 9 will be proposed as a special resolution to authorise the Directors to allot Ordinary Shares for cash or sell Ordinary Shares out of treasury for cash (i) in connection with an offer by way of rights which is made not strictly in accordance with section 561 of the Companies Act, or (ii) otherwise up to a maximum aggregate nominal value of £7,350 (representing approximately 5% of the Issued Share Capital as at 16 March 2011). If approved, this authority will replace the similar authority given to the Directors at the Annual General Meeting held on 12 May 2010 and would be given for the period ending on 31 May 2012 or, if earlier, the date of next year's Annual General Meeting. The resolution will enable the Directors, at their discretion, to allot equity securities for cash and also provide the Directors with greater flexibility to take advantage of business opportunities as they arise.

Resolution no. 10 – Authority to purchase Ordinary Shares

Resolution no 10, to be proposed as a special resolution, will authorise the Company to purchase up to 1,460,000 Ordinary Shares in the market on the terms set out in resolution 10 in the notice of Annual General Meeting. The authority would be given for the period ending on 31 May 2012 or, if earlier, the date of next year's Annual General Meeting and a resolution for the renewal of such authority will be proposed at each future annual general meeting.

Whilst the Directors have no present intention of making such purchases, it is considered prudent to have this authority so as to be able to act at short notice if circumstances change.

Resolution no. 11 – Adoption of the New Articles

Resolution no. 11 will be proposed as a special resolution to adopt the New Articles. The New Articles reflect further changes in company law as a result of the enactment of the remaining provisions of the Companies Act 2006. A summary of the principal differences between the Existing Articles and the New Articles is set out in the Appendix to this document.

A copy of the New Articles showing the changes from the Existing Articles will be available for inspection at the Company's registered office and at its offices at Arbutnot House, 20 Ropemaker Street, London EC2Y 9AR during normal business hours on any weekday (Saturday and public holidays excepted) from the date of this document until the close of the Annual General Meeting, and for a least 15 minutes prior to and during the Annual General Meeting.

Resolution no. 12 – Interim Dividend 2010

A technical irregularity regarding the payment of the interim dividend of the Company for the year ended 31 December 2010 has been identified.

Distributions made by a company must not exceed the distributable profits as reported in the last set of "relevant accounts" of the Company. For the purposes of the Companies Act the "relevant accounts" are either a company's last annual audited accounts or its latest interim accounts. In order to rely on interim accounts to pay a dividend a company must file those interim accounts with the Registrar of Companies. Whilst the Company has always been satisfied that it had sufficient reserves at the date of the payment of the dividend to shareholders, it had not filed interim accounts with the Registrar of Companies. The appropriate "relevant accounts" for each dividend payment would therefore be deemed to be the Company's prior annual accounts and the last year's interim dividend payment exceeded the balance of the distributable profits of the Company reported in the 2009 annual accounts.

This technical non-compliance with the terms of the Companies Act could, in theory, result in a right for the Company to claim for repayment of the dividend from shareholders who received that dividend payment and/or from the directors who approved the payment. In order to put shareholders and directors into the position in which they were always intended to be the Company proposes to release and waive any such claims. A resolution will be put to shareholders at the Annual General Meeting to approve such release and waiver.

Resolution no. 13 – Political Donations

Resolution no. 12 will be proposed as an ordinary resolution and seeks to renew the authority granted by shareholders at the 2007 Annual General Meeting to make donations to EU political parties or organisations or incur EU political expenditure within the meaning of the Political Parties, Elections and Referendums Act 2000 for a further four years limited to £150,000 in aggregate.

Action to be taken by Shareholders

Shareholders will find enclosed with this document a form of proxy for use at the Annual General Meeting. Whether or not Shareholders intend to be present at the Annual 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 Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the time fixed for the meeting. The completion and return of the form of proxy will not preclude Shareholders from attending the Annual General Meeting and voting in person should they wish to do so.

Recommendation

Your Directors consider that the Resolutions outlined above are in the best interests of the Company and Shareholders as a whole. The Directors recommend that you vote in favour of the Resolutions set out in the Notice of Annual General Meeting as they intend to do in respect of their own beneficial holdings which total 8,024,864 Ordinary Shares, comprising 53.5% of the existing Issued Share Capital.

Yours sincerely

Henry Angest
Chairman

Appendix

Principal differences between the New Articles and the Existing Articles

1. The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's Memorandum and Articles of Association (the "Articles"). The Company's Memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake.

The Companies Act 2006 (the "Act") significantly reduces the constitutional significance of a company's Memorandum. The Memorandum will now only record the names of, subscribers and the number of shares each subscriber has agreed to take in the Company. The Objects clause and all other provisions which are currently contained in the Company's Memorandum are deemed to be contained in the Company's Articles of Association but the Company can remove these provisions by special resolution.

Further the Act states that unless a company's Articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have Objects clauses. For this reason the Company is proposing to remove its Objects clause together with all other provisions of its Memorandum which, by virtue of the Act, are treated as forming part of the Company's Articles of Association as of 1 October 2009. Resolution 11 (a) confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's Memorandum of Association regarding limited liability, the new Articles also contain an express statement regarding the limited liability of shareholders.

2. Articles which duplicate statutory provisions

Provisions in the Company's Articles which replicate provisions contained in the Act are in the main to be removed from the proposed new Articles of the Company.

The Articles which are redundant are Article 8, Reduction of Capital as covered by Section 641 of the Companies Act, Article 9, Directors' Power to Allot Securities as covered by Section 551 of the Companies Act and Article 73, Votes on a Poll as covered by Section 322 of the Companies Act.

3. Authorised share capital and unissued shares

The Act has abolished the requirement for a company to have an authorised share capital. The proposed new Articles reflect this by having no reference to an authorised share capital. Authority to allot shares continues to be required and as such the Directors will be limited as to the number of shares they can allot at any time.

4. Authority to purchase own shares, consolidate and sub-divide shares and reduce share capital

The Act removes any requirement to have specific enabling provisions in a company's articles relating to the purchase of its own shares, the consolidation and sub-division of shares or the reduction in share capital. Only shareholder approval is now required. The proposed new Articles now reflect this, as the enabling provisions have been removed.

This eliminates existing Article 6.1 as well as Article 8.

5. Vacation of office by directors

The Articles specify the circumstances in which a director must vacate office. The proposed new Articles update these provisions to treat physical illness in the same manner as mental illness.

6. Voting by proxies on a show of hands

The Companies (Shareholder Rights) Regulations 2009 (the "Regulations") have amended the Act so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The new Articles have been amended to reflect these changes.

7. Electronic conduct of meetings

Amendments made to the Act by the Regulations specifically provide for the holding and conducting of electronic meetings. The proposed new Articles have been amended to reflect more closely the relevant provisions.