

City of London Group plc
Corporate Governance

Statement of compliance with the UK Corporate Governance Code

Chairman's Introduction

The Board of Directors of City of London Group Plc, recognises the importance of sound corporate governance, while taking into account the Company's size and stage of development. We believe the UK Corporate Governance Code issued by the Financial Reporting Council to be a suitable benchmark for the Company's governance.

Compliance with UK Corporate Governance Code

We have therefore agreed to report against the UK Corporate Governance Code ("the Code") and this report sets out in broad terms how we comply at this point in time. We will provide updates as things change. A full version of the Code is available from the Financial Reporting Council website at www.frc.org.uk.

A. Leadership

A.1 Role of the Board

It is the intention for the Board to be comprised of six directors. Currently there is one vacancy. There are three non-executive, of whom two are independent. The Board is chaired by Colin Wagman. The Directors' biographies can be found on page 11 of the Annual Report 2018.

The directors have a duty to promote the success of the Company and to this end the Board has clearly defined responsibilities set out in a formal schedule of matters reserved to it which includes setting the Company's strategy; approving any major changes to the Group's structure or share capital; approving the annual report and accounts and shareholder communications; ensuring a sound system of internal controls and risk management; approving major contracts; determining the remuneration policy (on the recommendation of the remuneration committee); and making appointments to the Board and other offices.

The Board meets at least six times each year as well as at other times when required. See page 14 of the Annual Report 2018.

The Board delegates specific responsibilities to the Board committees. See pages 12, 13, 15 to 17 of the Annual Report 2018.

Directors' Insurance is currently in place and is renewed on an annual basis.

Attendance at Board and Committee meetings

Audit & Risk Committee

The committee consists of three non-executive directors two of whom are independent: Andrew Crossley, Colin Wagman (since 5 October 2017) and Lorraine Young (since 10 August 2017). Andrew Crossley was committee chairman throughout the year. Paul Milner was a member until 5 October 2017.

The audit & risk committee is formally constituted with written terms of reference which set out its full remit. A copy of the terms of reference is available on the Company's website www.cityoflondongroup.com. The committee met four times during the year.

The committee reviewed the full and half-year financial results before they were considered by the Board for release to the market, including the going concern statement and the information to support it. The committee is responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements and considered the following significant issues that it had identified with the auditors:

- Recognition of revenue (gains on the revaluation/disposal of interests in properties and interest income), where there is a risk that revenue may be overstated. Testing confirmed income had been recognised in the correct accounting period.
- Valuation of the reversionary interests in the investment properties and equity release plan financial assets (affecting both revenue recognition and carrying value in the balance sheet) which involves a large degree of judgement and estimation. Testing confirmed that the methodology and estimates adopted were reasonable and consistent with previous practice.
- The use of the acquisition method of accounting for the transaction with Milton Homes Limited
- Impairment of carrying value in subsidiaries and associates, including equity and loans provided, which would reduce the net asset value of the Company and Group. The review of future projections and cash flow forecasts concluded that no further provisions were required in relation to the carrying value of investments.

The above risks were discussed with the auditors at the audit and risk committee.

Remuneration Committee

The Committee consists of three non-executive directors two of whom are independent: Colin Wagman, who is the Chairman, Andrew Crossley and Lorraine Young. Paul Milner was a member until 5 October 2017.

The remuneration committee is formally constituted with written terms of reference which set out its full remit. A copy of the terms of reference is available on the Company's website www.cityoflondongroup.com. The remuneration committee met twice during the year.

The remuneration committee is only involved in setting pay for the executive directors and senior managers of the Company, however it is aware of pay and conditions for other staff in the Group and for the senior managers in the businesses when making these decisions.

Responsibility for the remuneration policy of subsidiaries is devolved to the boards of those companies.

The committee did not use remuneration advisers during the year.

The executive directors are on part time contracts.

No director is involved in discussions or decisions on their own remuneration. Non-executive directors abstain from discussions or voting concerning their own remuneration. Details of directors' remuneration appear in the Directors' Remuneration report.

Nominations Committee

The nominations committee comprises the full Board. The Committee's principal responsibility is to lead the process for Board appointments, succession planning and to make recommendations for maintaining an appropriate balance of skills on the Board.

The nomination committee is formally constituted with written terms of reference which set out its full remit. A copy of the terms of reference is available on the Company's website www.cityoflondongroup.com

The committee considers matters such as Board and director effectiveness and succession planning. The committee did not meet during the year.

A.2 Division of responsibilities

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained on the website.

A.3 The Chairman

The role of Chairman is to lead the Board, ensuring it operates effectively and is composed of the right mix of skills and experience. He is also responsible for promoting a culture of challenge, openness and scrutiny. The Chairman sets the board agenda ahead of meetings.

A.4 Non-executive directors

Due to the size of the Company, the board does not consider it necessary to appoint a Senior Independent Director at this stage. This will be reviewed periodically. Meetings of the independent non-executive directors without the executive directors being present are held on a regular basis, without the Chairman.

B. Effectiveness

B.1 Composition of the Board

The directors have a broad range of skills and experience and receive updates on relevant legal and regulatory changes.

All of the directors retire and stand for re-election at the AGM. The non-executive directors have letters of appointment, which are not service contracts and which can be made available on request. The Board confirms that each of the directors continues to demonstrate the necessary commitment and to be a fully effective member of the Board.

Due to the size of the Company, the Board is comprised of at least two independent non-executive directors and so at this point the composition of the Board complies with B.1.2 of the Code.

B.2 Appointments to the Board

The Nomination Committee leads the process for the appointment of new directors to the Board.

B.3 Commitment

The Board is satisfied that each of the directors is able to allocate sufficient time to the Company to discharge their responsibilities effectively.

B.4 Development

On joining the Board, new directors receive a tailored induction, involving meetings with senior employees and the external advisors in order to enhance their understanding of the business.

B.5 Information and support

Prior to each scheduled meeting, comprehensive papers, which include regular business updates and management accounts, are prepared and issued. Discussion papers are circulated in advance of the need for Board approval of particular transactions to allow sufficient time for considered debate and decision. All significant decisions are taken at Board level.

There is an agreed procedure for directors to take independent professional advice if necessary at the Company's expense. This is in addition to them having access to advice from the company secretary.

A register of directors' interests (including any actual or potential conflicts of interest) is maintained and reviewed regularly to ensure all details are kept up to date. Directors' declarations of interest is a regular Board agenda item.

Authorisation is sought prior to a director taking on a new appointment or if any new conflicts or potential conflicts arise.

B.6 Evaluation

As this is a newly constituted board there has not been an opportunity to carry out a board evaluation however the intention is that one will be carried out in due course.

C. Accountability

C.1 Financial and business reporting

As set out on page 66 of the Annual Report 2018, Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;

- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

C.2 Risk Management and Internal Control System

There is an ongoing process, which is kept under regular review by the Board, for identifying, evaluating and managing, rather than eliminating, the significant risks faced by the Group. The Board believes that the Group's system of internal controls outlined below continues to be sufficient for the business.

The directors acknowledge their responsibility for the Group's system of internal and financial controls, including suitable monitoring procedures, in order to provide reasonable, but not absolute, assurance of the maintenance of proper accounting records and the reliability of the financial information used within the business. The Board has reviewed the effectiveness of the system of internal controls which operated during the period covered by this directors' report and accounts.

The key controls are:

- Clearly defined organisational responsibilities and limits of authority.
- Established procedures for authorisation of capital expenditure and investment of cash resources.
- Production of monthly management accounts which are compared to budget together with a review of detailed KPIs and explanation of key variances.
- COLG executive directors participate in regular management meetings of subsidiaries and review their monthly management accounts.
- Regular audit reports commissioned by third party lenders to CAML.
- Monthly bank and key control account reconciliations.
- Payment authorisation controls.
- The maintenance of detailed risk registers which includes analysis of all of the key risks facing the Group. These are reviewed by both the audit and risk committee and the full Board.
- The monitoring and control of credit risks by a central credit committee that sets loan sanctioning limits for the Group's lending businesses.

C.2 Audit Committee & Auditors

Going Concern

The directors review in detail the monthly cash flow forecast and consider the inherent uncertainties in market conditions and the potential impact of the risks on the financial position of the Group.

See pages 70 and 71 of the Annual Report 2018 for the Independent Auditors' report; and see page 5 of the Annual Report 201 for an explanation of the Company's outlook

D. Remuneration

The Remuneration Committee's activities during the previous reporting period are set out on pages 15 to 17 of the Annual Report 2018.

E. Relations with shareholders

The annual report is sent to all shareholders and, on request, to other parties who have an interest in the Group's performance. The Company endeavours to send the notice of AGM and supporting papers to shareholders at least 20 working days before the meeting and responds promptly to any enquiries received from shareholders. All shareholders have the opportunity to put forward questions at the Company's AGM. Dialogue is maintained with major investors and their views are communicated to the Board.

The AGM is a key opportunity for the Board to engage with shareholders to answer questions that may arise.

September 2018