

UK CORPORATE GOVERNANCE CODE STATEMENT OF COMPLIANCE

The Board of Directors has formally adopted the 2018 UK Corporate Governance Code (“the Code”) issued by the Financial Reporting Council (“FRC”) and believes that the Code provides a suitable benchmark for the Company’s corporate governance framework. A copy of the Code is available from the Financial Reporting Council’s website <https://www.frc.org.uk/>. The Code applies to companies with accounting periods beginning on or after 1 January 2019.

This Statement of Compliance below outlines how the Company has applied the relevant principles of the Code and complied with its provisions which came into effect for the Company’s 2019/20 financial year.

During the year under review, the Company complied with all the provisions of the Code, other than the exceptions noted below or elsewhere in this statement:

- **Provision 5 (Workforce Engagement):** Given the size of the business, the Board does not consider it appropriate to adopt the suggested methods outlined within the UK Corporate Governance Code 2018 to engage with its employees given the small number of employees the Company has. Employee engagement continues to be undertaken by business heads at each subsidiary level and any issues are escalated to the Board through the Chief Executive Officer. The Board believes that the arrangements in place are effective but will continue to keep this under review as the Company grows.
- **Provision 9 (regarding the independence criteria of the Chair on appointment):** Under the 2018 Corporate Governance Code, the Company’s Chair, Colin Wagman, is not considered to be an independent director given prior relationship with DV4 Limited which is a major shareholder in the Company. Despite this, the Board considers Mr Wagman to be independent in character, mindset and judgement.
- **Provision 11 (half the board, excluding the chair, should be non-executive directors whom the board considers to be independent):** The Board consists of two independent non-executive directors who continually provide constructive challenge on the Board and to the executive on the delivery of the Company’s strategy. No one person or group of individuals dominates the Board’s decision-making.

Section 1 – Board Leadership and Company Purpose

The Board’s role is to ensure the long-term success of the Company by implementing the Company’s strategy and business plan, overseeing its affairs and providing constructive challenge to management as they do this. In addition to this, the Board oversees: financial matters, governance, internal controls and risk management. To assist the Board in achieving this, the Board has clearly defined responsibilities set out in a formal schedule of matters reserved for its decision 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 formal schedule of matters reserved for the Board's decision is available on the Group's website.

For the year ahead, the Company continues to focus on the Group's long-term growth strategy of serving the vital UK SME market by establishing a new business bank – Recognise Financial Services Limited ("RFSL"). An overview of the Company's strategy and further information on the progress made to date in its journey to obtain a banking licence for RFSL is contained in the Company's 2020 Annual Report and Accounts on page 4. The Company is currently in a period of transition as it works towards implementing and establishing the bank, it is the intention of the Company to undertake a wider review of its purpose, value, culture and governance structure once the integration of the bank has been completed. The Board remains committed to a culture of openness with all its stakeholders, including its staff and has put in place a number of policies to ensure a healthy corporate culture exists. Through Group companies, it is focused on operating and developing its businesses in a customer-centric way so that the Group can maintain a reputation for fairness and high standards of business conduct.

The Board recognises the importance of building strong relationships with stakeholders and understanding their views in order to help the Company deliver its strategy and promote the development of the business over the long-term. The Board is committed to having effective engagement with its stakeholders and receives regular updates from its Chief Executive Officer and management on these which are taken into accounts in its discussions and in its decision-making process under section 172. Pages 17 and 18 include a Section 172 statement which summarises the Board's engagement with the Company's main stakeholders and some examples of how their views have been taken into account in the Board's decision-making.

Given the size of the business, the Board does not consider it appropriate to adopt the suggested methods outlined within the UK Corporate Governance Code 2018 to engage with its employees given the small number of employees the Company has. Employee engagement continues to be undertaken by business heads at each subsidiary level and any issues are escalated to the Board through the Chief Executive Officer. The Board believes that the arrangements in place are effective but will continue to keep this under review as the Company grows.

City of London Group seeks to ensure that it always acts lawfully, ethically and with integrity. As such the Group has in place an Anti-Bribery and Corruption Policy. It also has in place a Whistle Blowing Policy, which is designed to ensure that employees (or others) with a cause of concern can raise legitimate concerns without fear of reprisals.

Section 2 – Division of Responsibilities

The Directors possess a wide range of skills, knowledge and experience relevant to the strategy of the Company, including financial (including corporate finance), legal, governance, regulatory and industry experience as well as the ability to provide constructive challenge to the views and actions of executive management in meeting agreed strategic goals and objectives.

The roles of the Chair and Chief Executive Officer are separate, with a clear division of responsibilities, which has been set out in writing and approved by the Board, to ensure that no one individual on the Board has unfettered authority. The Chief Executive Officer is responsible for managing the day-

to-day operations and the implementation of the strategy of the Company. As well as chairing Board meetings, Colin Wagman is the Chair of the Nomination and Remuneration Committees and is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items. He promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors. Although Colin is not deemed independent within the definition of the Code, the Board believes that he remains independent in character, mindset and judgement.

Directors' declarations of interests is a regular Board agenda item. 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. Authorisation is sought prior to a director taking on a new appointment or if any new conflicts or potential conflicts arise. New Directors are required to declare any conflicts, or potential conflicts, of interest to the Board at the first Board meeting after his or her appointment. The Board believes that the procedures established to deal with conflicts of interest are operating effectively.

The Board has access to the advice of the company secretary.

Section 3 – Composition, Succession and Evaluation

The Board currently comprises five directors: the non-executive and non-independent Chair, one executive director and three non-executive directors, two of whom are independent and one of whom is appointed under the terms of the Company's relationship agreement with Max Barney Investments Limited. As mentioned above, the Chairman is not considered independent on appointment when assessed against the criteria of provision 10 of the Code, however the Board believes that he remains independent in character, mindset and judgement. All Non-Executive Directors continue to dedicate sufficient time to meet their Board responsibilities.

Biographical details of each director together with details of their significant commitments are set out on pages 20 and 21 of the annual report.

The appointment letters for the Chair and Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

Given the size of the Board, the Board does not consider it appropriate to appoint a Senior Independent Director as required under provision 12 but will keep this under review as the Company grows.

To assist the Board in carrying out its functions, the Board has delegated certain responsibilities to its audit and risk, remuneration and nomination committees all of which operate within a scope and remit defined by specific terms of reference determined by the Board and reviewed regularly. All committees have two independent non-executive directors as members. Further details including the composition and role of each of these committees are provided on pages 24, 25 and 26 of the annual report. The terms of reference of each committee are available on the Company's website at <https://www.cityoflondongroup.com/investors>

The number of Board and Committee meetings held during the year can be found on page 26 of the annual report.

In compliance with the Code, the Board undertook an evaluation of its own performance, that of the Board Chair, individual directors and its committees. This process was led by the Board Chair (supported by the company secretary) and was conducted using a questionnaire designed to assess the strengths and weaknesses of the Board and its committees including:

- composition, skills, balance, experience;
- effectiveness of the Board and decision making;
- resourcing of meetings, agenda planning, quality of information; and
- evaluation of individual performance and areas for improvement.

The results of the evaluation revealed no significant concerns amongst the directors with regard to the composition, operation and effectiveness of the Board or its committees. However there were some areas identified to further improve the effectiveness of the Board such as long-term succession planning. Actions to address these have been taken and plans will be further developed in the current year. The Board recognises the importance of succession planning to refresh the Board and notes the Code provisions relating to this. The nomination committee has considered succession for the board and the senior management team within the group. It is envisaged that should a Board member or member of the senior management team be unable to fulfil their duties for a period of time, one of the other directors or senior managers with the most appropriate experience would step in to perform the role on an interim basis until a longer-term solution was identified..

The Board is yet to put in place a longer-term succession plan for the Board and senior executives giving the transition stage the Company is at. Once this transition is completed, a wider review of the Company's governance structure and succession plan will be undertaken to ensure plans are in place for the orderly succession of both the board and senior management.

The Company considers the annual re-election of directors to be good corporate governance and has therefore chosen to follow this practice. As such, all directors will retire and stand for re-election at the AGM. The Board confirms that each of the directors proposed for election or re-election at the AGM continues to demonstrate the necessary commitment and to be a fully effective member of the Board.

Further information on the Board's process in relation to new appointments and diversity can be found on pages 23 and 24 of the annual report.

Section 4 – Audit, Risk and Internal Control

As mentioned above, the Board has delegated certain responsibilities to its committees including its audit and risk committee. The Committee is chaired by Andrew (Andy Crossley) and its other members are Colin Wagman and Lorraine Young. Andrew Crossley has recent and relevant financial experience and the committee as a whole has competence in the sector in which the Company operates. Other individuals, including the other directors of the Board and representatives from the finance function are invited by the committee to attend meetings from time.

The role of the committee is to monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and assess whether they are fair, balanced and understandable before recommending their approval to the Board. In addition, the Committee reviews the effectiveness of the Company's internal financial controls and risk management systems. A process is in place whereby the risks across all group business are reviewed by both the Audit Committee and Board via a risk register on a quarterly basis.

The last such report identified the key risks to which the Group is exposed being Recognise Financial Services Limited obtaining authorisation for deposit taking including meeting the capital and liquidity requirements; the potential for lower house prices to impact the value of sales in Milton Homes; and the impact of the recession on credit losses in the CAML book.

A summary of the principal risks facing the Company and the mitigating actions in place are contained on pages 12 to 14 of the annual report.

The Company's going concern and viability statements are contained on pages 15 and 16 of the annual report.

Further information on the work undertaken by the Committee during the year can be found on pages 24 and 25 of the annual report.

Section 5 – Remuneration

The Board has established a Remuneration Committee of independent non-executive directors. Colin Wagman has chaired the Committee since 2017 and has not served on a remuneration Committee prior to his appointment as Chair

The Company's remuneration policies and practices are designed to support its long-term strategy and promote the long-term sustainable success of the Company. During the year, the Company undertook a review of workforce remuneration and related policies across the Group to ensure that all the employment terms, incentives and rewards including pension contribution were aligned. The Company currently has no policy in place for executive and senior management remuneration given that COLG only has one executive director – the Chief Executive Officer. The Company relies on market information for similar positions with comparable status, responsibility and skills in organisations of broadly similar size and complexity when determining the salary of the executive and senior management directors.

Throughout the year, the remuneration committee considered the implementation of share option schemes for senior executives across the business to ensure they were incentivised and to align these individuals with the long-term strategy of the Company and shareholder interests.

The remuneration of the Chair and the Non-Executive Directors is determined by the Board and is regularly reviewed. Fees for the Chair and the Non-Executive Directors reflect the time commitment and responsibilities of the role and the UK market levels. Fees do not include share options or other performance-related elements.

From time to time, the Committee awards shares under the Company's share option plan to employees subject to the satisfying certain performance conditions and targets. These awards are subject to cancellation, clawback and/or malus for up to three years following award.

Further information on the role of the Committee and work undertaken by the Committee during the year can be found on pages 25 and 27 of the annual report.

September 2020