

# Recognise Financial Services Limited

Banking licence progress update

September 2020



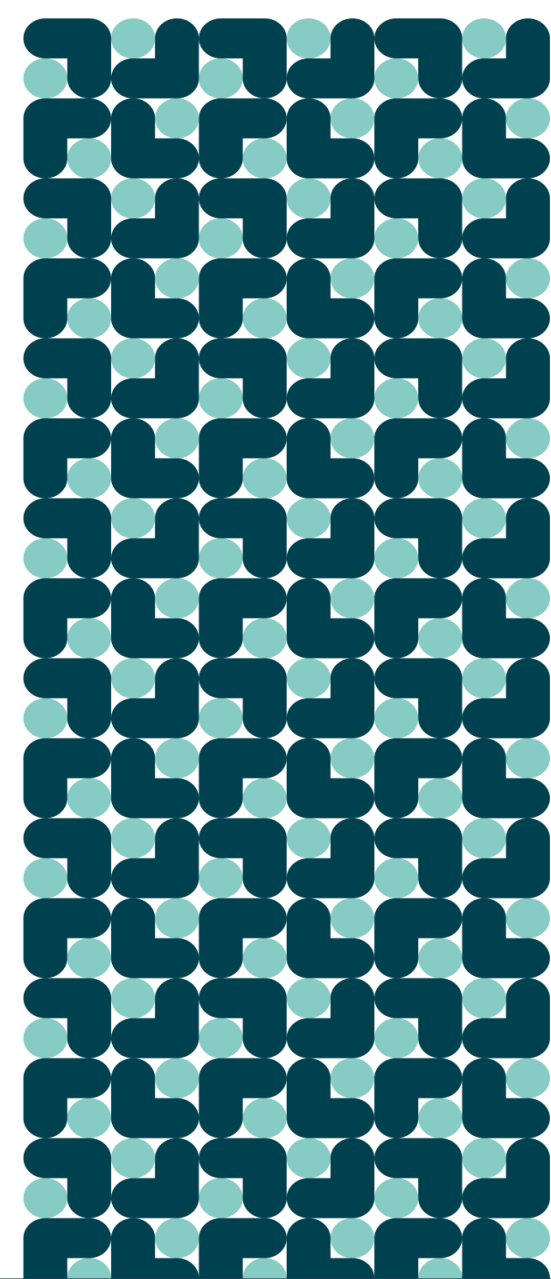


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# About Recognise

- Recognise Financial Services Ltd (Recognise), owned by City of London Group Plc (COLG), was established in 2018 to provide financial services to the UK SME sector. Recognise is well advanced in its application for authorisation as a bank
- Recognise will offer a relationship-led proposition focused on service excellence, speed of execution, flexible structuring and durable customer relationships**
- Recognise product roll out plans are set out below:

Mobilisation (Expected Q4 20 – Q1 21)		Year 1	
Lending	Deposits	New Lending	Deposits
Working Capital Loan Professional Practice Loan Commercial Property Loan Bridging Loan	N/A	Professional BTL Loan Asset Finance	Personal Savings (Easy Access; 95d Notice; 1, 3 & 5yr Fxd) Business Savings (95d Notice; 1yr Fxd)

- COLG has existing loan books – Real Estate assets (c£6m) which will shortly transfer to Recognise and Asset Finance (c£11m) which is in wind down and remains in COLG
- As announced on 10<sup>th</sup> September, COLG conditionally raised £25m\* as part of a planned £30m total fund raise to meet capital requirements and to support our lending growth targets
- Headquartered in the City at The Royal Exchange. Further regional offices being established in Manchester, Birmingham and Leeds

\* Subject to appropriate regulatory approvals and other conditions set out in the RNS announcement

## OUR VALUES

### Respect

We treat others how we like to be treated – colleagues, customers, brokers, suppliers. We honour small business owners for the value they bring to our communities and economy. And the hard work that comes with that

### Simplicity

We're straightforward to work with and to work for. We keep things uncomplicated – from our single-minded focus on UK SMEs, to our pragmatic approach to lending. Our customers don't have time to waste and neither do we.

### Relationships

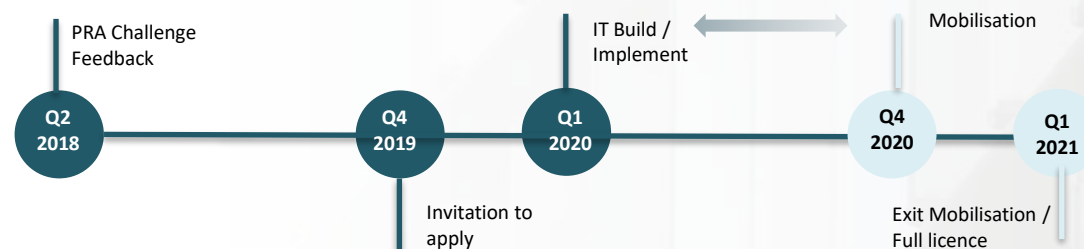
Personal relationships are what set us apart. We build ours on deep understanding, accessibility and trust, without taking ourselves too seriously. Because everything we do is about bringing the human touch back to SME banking.

### Kaizen

We don't believe the conventional way of doing things is always the right way or the best. So we look to improve, continuously. This means challenging ourselves to go the extra mile, for our customers and each other, and never settling for the easy option.

# Our journey to become a bank

## Regulatory milestones



## Forecast recruitment



- Recognise started its application for a full banking licence in 2018 and is now well advanced in applying for a banking licence.
- We expect Authorisation with Restriction (AwR) i.e. our provisional licence, to be granted in Q4 2020 and full licence in Q1 2021
- The senior management team have been in regular dialogue with both the PRA and FCA for over 2 years and have developed a very granular Regulatory Business Plan
- Recognise is already well advanced in its preparations to satisfy the Regulators' Exit Mobilisation Conditions and as such expects to complete Mobilisation within 6 months of AwR
- Recognise has recruited a team of over 40\* with banking and SME experience as well as technology and entrepreneurial skills and has developed a clear and realistic medium-term business plan
- To support the banking licence application process and to build out the new bank infrastructure COLG raised £15.2m from existing and new shareholders in Q1 2019
- A UK banking licence will allow access to the UK's £1.3tr retail deposit market\*\*, a large and sustainable pool of low-cost funding
- All key executive positions have been filled since mid-2019

\* Includes iNEDs

\*\* Centre for Economics and Business Research 2019

# A strong leadership team ... with banking, tech and entrepreneurial experience

## Grow the Bank

## Run the Bank

## Control the Bank



**JASON OAKLEY\***

**Chief Executive Officer**

35 years' experience

Formerly MD of Commercial Banking & Mortgages at Metro Bank building the business to c£2.5bn within 3 years. Head of SME at NatWest & RBS with over 3000 relationship Managers covering 1m customers



**MARK BAMPTON**

**Chief Credit Officer**

33 years' experience

Experience includes credit risk, loan origination & monitoring, re-structuring & recovery / workouts. Former Head of Commercial Property Finance at Nationwide Building Society. Current MD of Property & Funding Solutions Ltd



**PATRICK FERGUSON**

**Chief Risk Officer**

20 years' experience

Qualified accountant. Previously Executive Director, Risk & Strategy, Newcastle Building Society and has operated at Executive and Board level in retail financial services for the past 13 years



**BRYCE GLOVER\***

**Deputy Chief Executive Officer**

38 years' experience

Formerly MD of Commercial Banking at Alliance & Leicester/Santander; Commercial Director at Nationwide BS responsible for a £22bn lending portfolio. NED and Chair of Group Risk Committee at Newcastle Building Society



**MONICA VELASQUEZ**

**Chief Technology Officer**

6 years' experience

A Technology Consultant who spent 3 years at PwC London helping 6+ new entrant banks to obtain their banking and/or payments provider licences



**DAVID JENKINS\***

**Chief Financial Officer**

20 years' experience

Former Director of Financial Planning and Capital Management at Aldermore. Previous leadership roles at Prudential, Lloyds and ABN AMRO



**CRAIG POCOCK**

**Chief People Officer**

32 years' experience

A highly experienced HR Director with significant strategic and operational experience gained in three major financial services organisations: NatWest, Lloyds Banking Group and Nationwide



**RUDOLF HEAF**

**Director of Operations**

36 years' experience

Previously led Banking operations for Barclays and Nationwide across multiple sites in the UK and overseas. Also led Derbyshire, Cheshire & Dunfermline BS following their acquisition by Nationwide in the Financial Crisis



**ADRIAN GOLUMBINA**

**Treasurer**

15 years' experience

Qualified accountant with Grant Thornton and PWC before becoming FD of three large divisions of Network Rail and FD of Hanco ATM Systems Ltd

## An experienced Board ... Recognise independent & investor Non-Executive Directors



**PHILIP JENKS**

Chair

Previously held roles as Chairman at Charter Court FS Group and NED at Leeds Building Society. Highly experienced in the licence application process from his time at Charter Court. Also Chair of Auden Group, a socially responsible and ground-breaking Financial Services group focused on personal customers.



**MOORAD CHOUDHRY**

Non-Executive Director

Moorad started his impressive career as an analyst at The London Stock Exchange and later moved on to roles at well established companies including ABN AMRO, KPMG, JP Morgan Chase, Europe Arab Bank and RBS. He was previously CEO of Habib Bank UK and, most recently, worked at Cambridge and Counties.



**LOUISE MCCARTHY**

Non-Executive Director,

Chair of Remuneration Committee

35 years' experience in large private and public sector organisations, embracing complex technology and digital transformation strategies. IT Transformational / Change Director at HM Revenue & Customs and numerous contractor roles as transformational director.



**RICHARD GABBERTAS**

Non-Executive Director,

Chair of Audit Committee

Led KPMG's Regional Financial Services Practice providing audit and advisory services to a range of household names in the sector from established banks and building societies to new entrants. He has extensive knowledge of financial services and a deep understanding of banking regulation.



**SIMON WAINWRIGHT**

Non-Executive Director,

Chair of Risk Committee

Simon Wainwright is MD, UK and Ireland and COO for Europe, Middle East and Africa at global reinsurer Reinsurance Group of America (RGA).



**MICHAEL GOLDSTEIN**

Investor Non-Executive Director

CEO of COLG

35+ years experience. A Senior Audit partner in BDO LLP where he was responsible for the management of the national audit business.



# The market opportunity



\* Selected for high growth, strong balance sheets and require funding to support scale-up strategies

SME Customers No's

5,700,000

Addressable Market

500,000\*

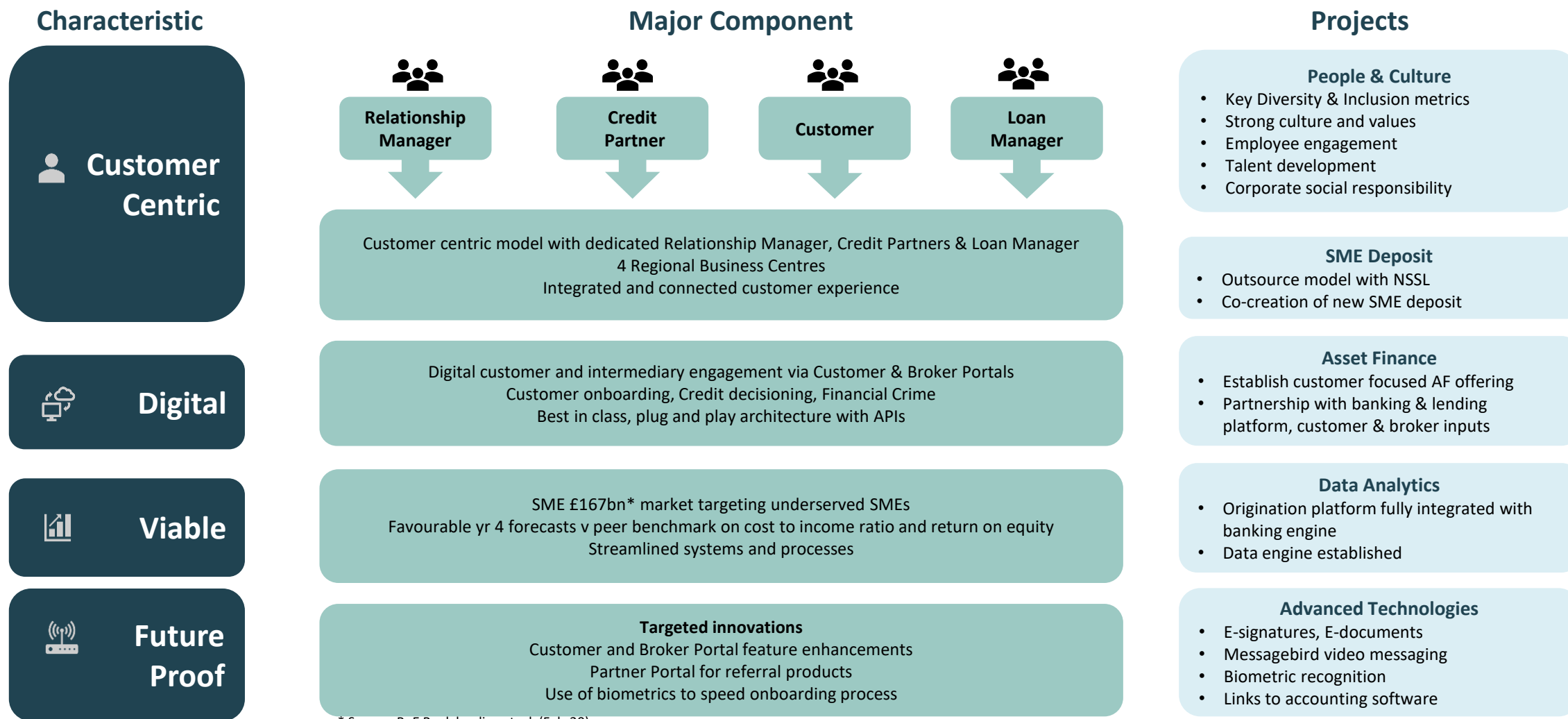
**Regional coverage from 4 centres  
targeted to highest SME density and historical growth forecasts**

**Responding to the findings of our market research we will deliver on our commitment to  
responsiveness, accessibility, continuity and flexibility...  
set against the backdrop of a business plan which has been drawn up conservatively, with  
long term viability...  
and satisfied, fairly-treated customers, at its very core**

**We believe against the Covid backdrop the need for, and value, of an  
SME-focused lending bank with no legacy book has increased not  
decreased**

**We require circa 4,500 borrowers or 0.1% market share to  
achieve our 5 year lending target**

# A relationship led, digitally enabled strategy ... latest tech with a human touch



\* Source: BoE Bank lending stock (Feb-20)



# Our product proposition

## LOANS



**USE:** Commercial Property/ Professional Buy-to-Let / Bridging / Professional Practice / Working Capital Asset Finance



**SIZE:** up to £5m (minimum £50k)



**TERM:** 3 months to 5 years

## DEPOSITS



**CUSTOMER:** Personal & Business Savings through established outsourced service provider (Newcastle Strategic Solutions)

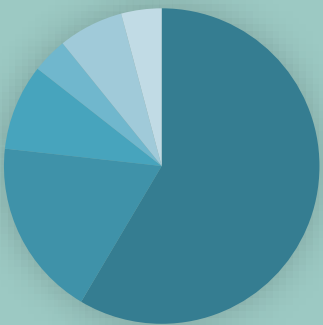


**SIZE:** min. £1k, max. £85k (up to FSCS limit)



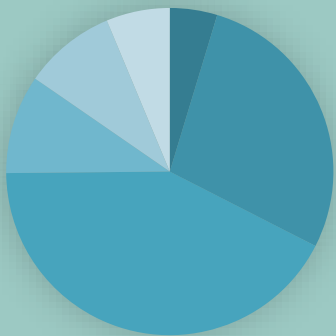
**TERM:** up to 5 years

## Lending Balances (yr. 4)\*



- Commercial Property Loan (58%)
- Professional BTL (18%)
- Bridging Loan (9%)
- Professional Practice Loan (4%)
- Working Capital Loan (7%)
- Asset Finance (4%)

## Deposit Balances (yr. 4)\*



- Easy Access (5%)
- 95d Notice (28%)
- 1yr Fxd (42%)
- 3yr Fxd (10%)
- 5yr Fxd (9%)
- Other (6%)

\*All figures are estimates as at date of publication and may be subject to change

## How has execution risk been reduced?

▪ <b>Where is your technology up to?</b>	We are using cloud-based lending and banking platforms which are fully tested and reviewed and assured both internally (2LoD) as well as externally by our auditors
▪ <b>Are you on track to deliver deposits in 2021?</b>	Deposits Management is outsourced to the market leader (NSSL). Our personal savings platform is fully tested. A ground-breaking business savings platform is on schedule to be delivered in Q1 2021
▪ <b>Do you have a Website?</b>	Our web-site is complete, tested and will be launched at AwR. The site will provide links to Customer and Broker Portals for lending and to NSSL for deposit customers
▪ <b>Is your Governance in place?</b>	Board fully constituted since mid 2019 with five independent and highly skilled NEDs including a Chair, Phil Jenks, who led Charter Court from licence application to IPO over 8 years
▪ <b>But what about the Executive and broader team?</b>	Firmly embedded and having over 200 years banking experience. CEO, Deputy CEO, Chief Risk Officer, Chief Financial Officer, Chief Technology Officer, Operations Director, Chief Credit Officer and Chief People Officer. With COLG's support, Recognise has expanded the team and we now have over 40 colleagues
▪ <b>How can investors draw confidence that lending targets will be met?</b>	Recognise's parent company COLG has been lending through Property & Funding Solutions Ltd (bridging finance provider) since 2018. We have a core business development team already in place and identifying business opportunities. Also the CEO, Deputy CEO and CCO have built and managed successful lending businesses over the past two decades for other Banks and Building Societies – this is their strength and the strength of the team they have built
▪ <b>What else should you be aware of?</b>	<b>We believe the opportunity is as strong as ever</b> and from our research understand established UK banks, building societies, peer to peer, unregulated lenders are awash with problems and potential bad debts, exacerbated by Covid-19. New business appetite is minimal, and this will not change for the next couple of years. In adversity Recognise has an opportunity to build its balance sheet and attract higher quality borrowers at better margins than originally anticipated

# What are our competitive advantages?

<b>Executive Team</b>	Dedicated, career-served, sector understanding and with experience of running own businesses. Extensive professional and customer networks to draw from and the lessons drawn from the last two economic recessions and multiple economic cycles. Management have shown belief in Recognise through supporting the company with their own funds and will be incentivised to build a safe and successful enterprise
<b>Speed of response and execution a priority</b>	The ability to give decisions within days not weeks and to execute with speed not matched by the incumbent players
<b>Access to an experienced Relationship Manager</b>	A commitment to provide an experienced manager who will stay with the SME and a promise of access to senior decision makers within 24 hours if required
<b>Flexible structuring</b>	Built around the SME business not the Bank. Satisfying the risk and shaping the deal to meet the customer needs
<b>Balancing the use of technology with the human touch</b>	Technology is an enabler not a decision maker, it is to help the customer not replace the human engagement and judgement
<b>Geographical presence</b>	Building regional franchises in locations where the Executive team have strong knowledge and where we anticipate future economic growth
<b>Widest possible access</b>	Encouraging direct access, Business Development Managers contacts, use of best buy, trade associations, online platforms, commercial finance and deposit brokers and other lenders
<b>A robust business plan</b>	Realistic target setting allows a lower risk portfolio to develop not predicated on high volume, high risk transactions but built on a conservative risk appetite and robust stress testing, key ingredients for long term viability alongside realistic, long term investors with a measured outlook
<b>Existing businesses</b>	COLG had existing lending businesses CAML (established over a decade ago) and P&FS which was set up in 2018. This provided access to the asset finance and bridging loan markets and has allowed us to benefit from a lending track record as well as the ability to stress test our lending practices ahead launch
<b>Commitment to fairness and customer focus</b>	Recruitment centred around core 'ICARE' values. Fully qualified candidates did not make short-lists if it was felt they would not fit the culture and values that Recognise holds core. Everyone understands the importance of going beyond TCF and conduct rules to build an organisation which allows customers to help shape the future

# What Recognise will look like in year 4

**£1.1bn Loans**

**£1.3bn Deposits**

**44,000 Depositors**

**4,500 Borrowers**

**> 100 energised  
colleagues**



**Cost: Income  
Ratio  
< 40%**

**New products  
launched from  
lean, versatile  
cloud-based  
platform**



**Profits Before Tax > £30m**

**Cost of risk: 25 bps**

**Return on Regulatory Capital > 20%**

**Recognise brand renowned for business  
understanding, responsiveness, expertise,  
accessibility, flexibility and fairness**

**Business Centres in  
London, Birmingham,  
Manchester and Leeds**

Note: All figures are estimates as at the date of publication and as such could change with any future taxation and regulatory changes





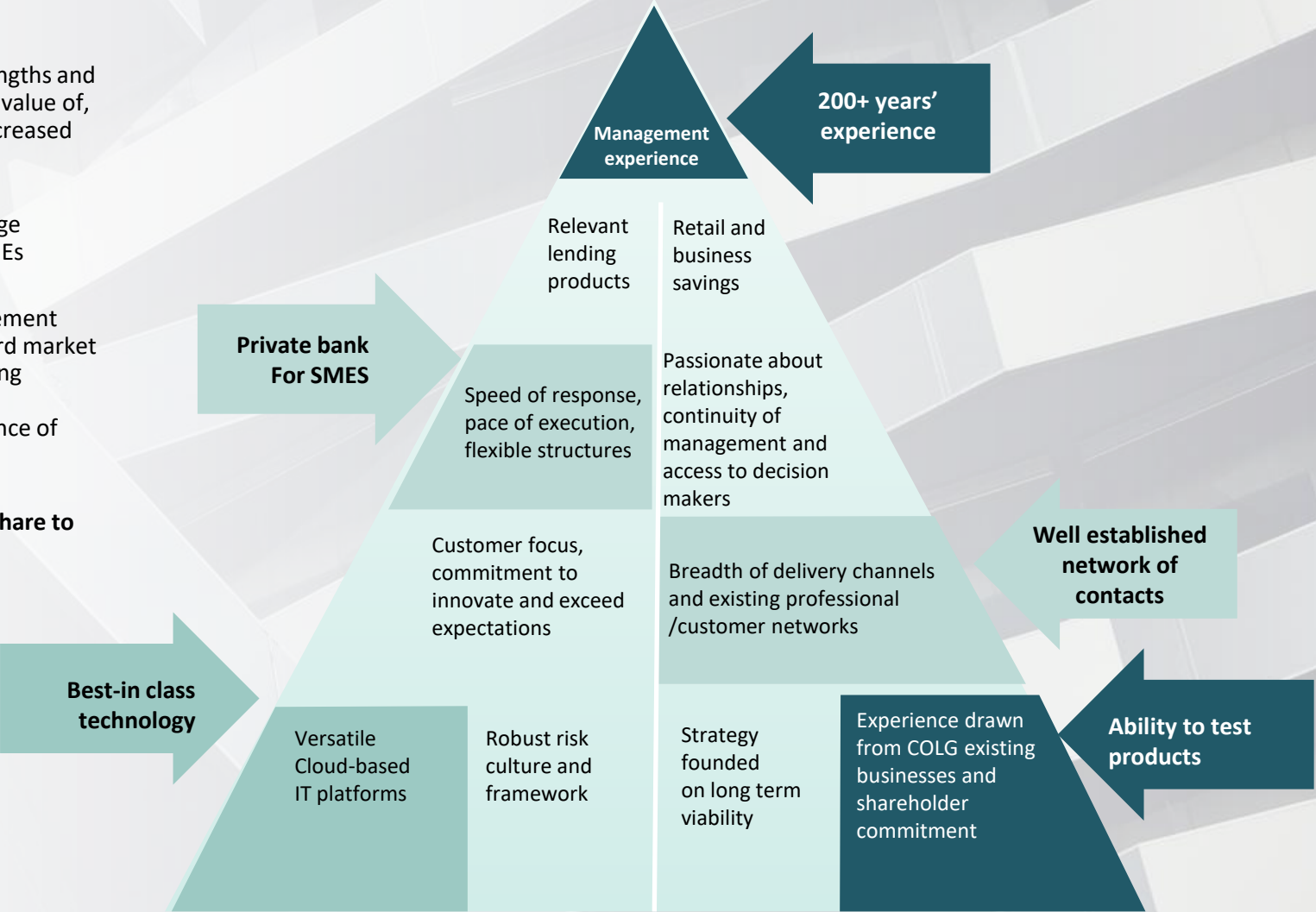
# Summary

Recognise’s competitive advantage is its operational strengths and realistic business plan. We believe that the need for, and value of, an SME-focused lending bank with no legacy book has increased significantly as a result of Covid-19

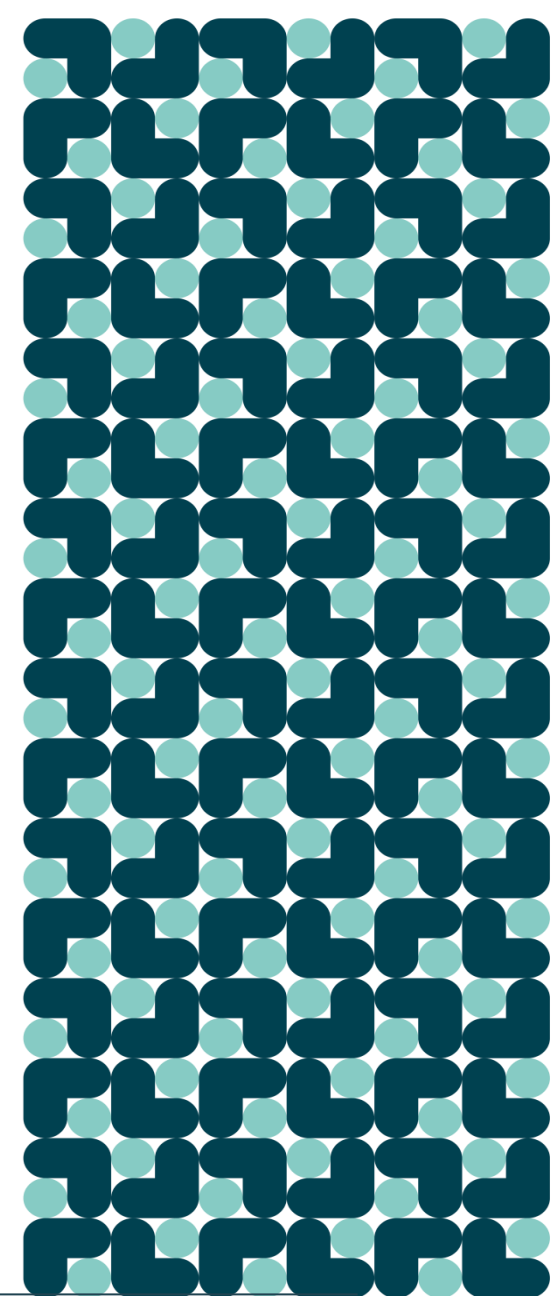
We have recruited a very strong executive team, with huge experience and a track record of success in lending to SMEs

Coupled with our investment this has allowed us to implement leading edge technology to support a very straight forward market offering and business plan. Further COLG’s existing lending businesses has helped Recognise to establish governance procedures and credit and operational processes in advance of trading as a bank

**We only require circa 4,500 borrowers or 0.1% market share to achieve our 5 year lending target**



# Appendices





# 1. The SME market opportunity

## The Opportunity

- Small and mid-sized UK companies with fewer than 250 employees and a turnover below £40m play a vital role in the UK economy
- There is political and regulatory desire to see greater competition in the SME market
- The top 3 regions in the UK measured by number of SMEs are London, Birmingham and Manchester\* – these mirror the proposed first three business centre locations for Recognise. These regions have also seen the highest growth historically
- Entrepreneurs have a greater propensity and appetite to consider newer suppliers alongside, and often in place of, traditional incumbents.
- SME owners do not believe that the established banks are sufficiently focused on their needs
- The rise of the challenger banks has changed the landscape, SMEs are more than willing to embrace this new cohort

\* Merchant savvy SME data

## UK SME market is still dominated by the Big Four

- The Big Four banks whilst losing ground since the financial crisis, still account for the majority of lending to and current accounts with SMEs
- They struggle with legacy systems and demands to improve group profitability through cost cutting and capital optimisation
- Their SME operations look relatively cost and capital intensive, which are stuck between the large corporate customers and the standardised products being offered to retail customers
- They have moved away from small business relationship management and the sense of personal touch and understanding

## Our Proposition

### Build intimate relationships through;

- Customer driven experience through a human touch
- Regional Representation through our Business Development Manager relationships/regional hubs

### Utilising the latest technology

- Cloud based SAAS technology will support the human touch and not replace it

### Being creative and dynamic

- Establishing a customer focused Asset Finance offering
- Working with Brokers to increase our reach
- Using Deposit platforms to quickly raise liquidity

### Using our skills and expertise

- A depth of challenger and high street bank experience with a track record of building new SME businesses
- Established networks and contacts in key regions that will allow Recognise to attract both high quality talent and quickly assemble a customer base.

## 2. COLG group companies

City of London Group is the parent company of a number of businesses focused on the UK SME market



MILTON HOMES

<b>Focus</b>	Whole of market broker for insurance, mortgages, pensions, commercial loans and investments	To provide financial services to UK SME sector.	P&FS offers property and bridging loans for acquisitions, refinancing, refurbishments and development. P&FS will merge with Recognise in Mobilisation	Provides debt and asset finance to SMEs	Owns a portfolio of home reversion plans with NAV of £17.4m
<b>Date Established</b>	2008	2018	2018	2011	2004
<b>Customer proposition</b>	Private clients and SMEs with strong emphasis towards the property sector	Will target an underserved SME population with a proposition centred on business understanding, responsiveness, expertise, accessibility, flexibility and fairness. Supported by market leading technology	SME focus – loan terms are structured, bespoke to customers	Focus on equipment finance, professional and commercial loans	Residential property investments of approx. £71m and a vacant possession value of £96m. 570 plans established secured on 510 properties
<b>Status</b>	Arranged over £150m of commercial debt	Banking licence application submitted Q4 2019. Confirmation of TCR (Total Capital Requirement) received in July 2020	Cira. £6m loan book	Loan book approx. £11m and is in wind down	In wind down / liquidation

\* PFS will move across shortly to become a subsidiary of Recognise

### 3. Our credit process

#### Recognise Credit Process

**Objective** - build a loan book of short and medium term commercial secured senior debt managed via concentration risk triggers and limits to achieve diversification

**Underwriting** – all loan proposals individually analysed and underwritten by experienced credit team

**Loan Quality** – all loans assessed across a range of quality metrics and rated Strong, Good, Satisfactory or Weak – minimum 80% new lending approved rated Strong or Good

**Loan Repayment** - 3 robust sources of debt repayment – i) business/property cashflow, ii) value of collateral security, and iii) personal recourse to sponsors available assets

**Periodic Reviews** – all loans with tenors greater than 12 months will be subject to a minimum annual review of loan and underlying business/property performance

#### Underpinned By

**Executive Management** - have decades of lending expertise managing multi-billion-pound commercial property loan books including through two recessions managing borrower & tenant defaults, property voids as well as debt restructuring & recovery

**Credit Team** – team of underwriters experienced in lending to the SME sector both owner business and property focussed covering the whole Recognise loan product suite

**Loan Approval** – mandate structure in place for loan approvals from individual underwriter through to Credit Committee commensurate with underwriter experience, seniority of role, product risk profile and size of loan

**Diversification** – achieved through concentration risk triggers / limits to provide well spread loan book by borrower, loan size, business/property sector and geography

**3 Lines of Defence (LoD)**– methodology implemented – 1LoD= business development/loan management/credit underwriting teams, 2LoD= credit oversight by risk team and 3LoD = internal & external audit

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