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CITY OF LONDON GROUP PLC

("COLG" or "the Company")

Business Update and Capital Raise

The Board of COLG (AIM:CIN) is pleased to announce today a business update and a conditional capital raise of up to £30 million to be conducted by way of a subscription and placing of new ordinary shares in the capital of COLG.

Summary

- The Company's subsidiary, Recognise Financial Services Limited ("Recognise"), is progressing with its application to the Prudential Regulation Authority ("PRA") for a banking licence. As announced on 23 July 2020, Recognise has now received its Total Capital Requirement ("TCR") letter from the PRA. This letter set out the capital requirements Recognise would be subject to if it receives its Authorisation with Restriction as a Bank. This is expected later in the year following completion of the capital raise, which COLG anticipates will be shortly after the Company's annual general meeting to be held on 30 September 2020.
- The capital raise has two components. The Company has today entered into an agreement with an investment company, Parasol V27 Limited (the "Investor"), which is an affiliate and under the management of RG Advisors, under which the Investor has conditionally agreed with the Company to subscribe for 31,250,000 new ordinary shares at a subscription price of 80 pence per new ordinary share in cash for aggregate gross proceeds to the Company of £25,000,000 (the "Subscription").
- In addition, the Company is intending, subject to demand, to place up to a further 6,250,000 new ordinary shares to certain existing shareholders and potential new investors at an issue price of 80 pence per share to raise gross proceeds of up to £5,000,000 (the "Placing").



- The Subscription is conditional upon, among other things, the approval of the Financial Conduct Authority ("FCA") and the PRA in accordance with the FCA's usual procedures upon a change of controller of a regulated entity.

Commenting on the capital raise, Colin Wagman, Chairman of COLG, said:

"Today's announcement of the conditional subscription of £25 million is a tremendous endorsement of our strategy and our team, and the excellent progress we have made to date in readying a new bank for the UK's under-served SME community."

Michael Goldstein, CEO of COLG, said:

"Given the highly challenging environment facing the world economy today, we are delighted to have achieved this level of support from a prestigious global investor. This acknowledges the quality of what we have delivered as a business thus far, the excellent plan we have in place, and the fantastic team we have built to do this, as well as the importance of the UK's under-banked SME sector to our national economy. We are also confident of raising the additional capital to provide the necessary investment to get us beyond the next stage of development."

Jason Oakley, CEO of Recognise, added:

"Today's announcement represents another significant milestone on Recognise's pathway to becoming a fresh new face in the UK SME banking market, built on solid foundations by a very strong team with a credible and differentiated business plan, and an exciting future. UK entrepreneurs will play a key role in creating and supporting UK economic growth, and to do so they need a banking sector that is aligned to their needs and way of thinking. With the experience and expertise we have at our disposal, and with the support and commitment of all our shareholders, we believe that we can be at the forefront of that and play a major role in helping the UK small business sector get back on its feet."

Background to the Capital Raise - The SME opportunity

COLG believes that the underserved small-to-medium enterprise (SME) lending segment in the UK represents a significant opportunity. The growth of the banking sector has accelerated over the last decade and it continues to evolve. At the same time, the SME sector - now with over 5.7m businesses in the UK - is witnessing change when it comes to securing funding and savings needs.

The UK's existing large and well-established banks have, in recent years, moved away from small business relationship management and the experience of personal touch and understanding. By contrast, the new group of challenger banks has seized the opportunity and finally gained the traction they needed to fill this void. Recognise has validated its market approach through primary external market research of SME owners and the important commercial broker network.

It has in place the governance, infrastructure and key personnel to be able to commence lending in its own name in order to play a role in helping UK entrepreneurs and SMEs recover and re-build their businesses following the disruption caused by COVID-19. Recognise, and its highly experienced management team, will target the vital but underserved SME lending market offering service excellence, speed, flexible structuring and the key component of personal service through dedicated relationship managers. It combines the agility and flexibility of a cloud-based lending platform with the human touch, the latter so often neglected by the established lenders.



The Board of COLG remains confident that as UK businesses emerge from the COVID-19 pandemic, there will again be strong market demand for SME specialist lending and new opportunities for growth. Recognise will not be burdened with a pre-COVID-19 legacy loan book and will be keen to build its lending portfolio by supporting well established businesses with business plans tailored to the post-COVID environment. In this context the original business plan for Recognise remains just as relevant, if not more so, than when first constructed.

Recognise is progressing with its application to the Prudential Regulation Authority for a banking licence. As announced on 23 July 2020, Recognise has now received its TCR letter from the PRA. This letter sets out the capital requirements Recognise would be subject to if it receives its Authorisation with Restriction as a Bank. This is expected later in the year following completion of the capital raise, which COLG anticipates will be shortly after the Company's annual general meeting to be held on 30 September 2020.

COLG has today published an updated corporate presentation on its website which can be accessed here: <https://www.cityoflondongroup.com/new-investor/>

Details of the Proposed Capital Raise

COLG is financing Recognise's growth through an equity capital raise. The capital raise has two components, the Subscription and the Placing with all proceeds down-streamed to Recognise.

The Subscription

The Company has today entered into an agreement with the Investor under which the Investor has agreed with the Company to subscribe for 31,250,000 new ordinary shares at a price of 80 pence per share in cash, resulting in aggregate gross proceeds to the Company of £25,000,000.

The Investor is an investment company, Parasol V27 Limited,] which is an affiliate and under the management of RG Advisors, the private family office of Ms Ruth Parasol, who also has extensive real estate interests in Europe and the United States as well as asset management, globally diversified investments in private and public markets. As part of the Subscription, the Investor will have the right to nominate directors to the Boards of COLG and of Recognise. The Investor has nominated Ms Ruth Parasol (Chair of RG Advisors) and Ms Nyreen Llamas (Senior Advisor at RG Advisors) to serve as a Directors on the Board of COLG.

Completion of the Subscription is conditional upon a number of things including the following:

- all required regulatory authorisations and approvals being obtained, including:
 - the FCA and PRA approval(s) of any required controller application(s) as regards the Subscriber's interest in Recognise;
 - the FCA's approval(s) of any required change(s) in control of the Company's existing FCA authorised subsidiaries;
 - the PRA confirming that Recognise's proof of capital is acceptable;
- the Company and each member of the Group having carried on its business in the ordinary and usual course and there having been no Material Adverse Change and the Company and no other member of the Group having entered into or assumed or incurred any contract, commitment, borrowing, indebtedness in the nature of borrowing, guarantee, liability (including contingent

liability) or entered into any transactions not in the ordinary course of business and which, in each case, results in a Material Adverse Change. For this purpose Material Adverse Change means any material adverse change in, or any development likely to result in a material adverse change in or materially and adversely affecting, the condition (financial, operational, legal or otherwise), shareholders' equity, earnings, results, management, business, affairs, solvency, liquidity position, funding position or prospects of the Group taken as a whole, whether or not arising in the ordinary course of business provided that any event, circumstance or change arising out of COVID-19 or any related pandemic shall not be a Material Adverse Change;

- there being no material breach of warranty or undertaking by the Company under the Subscription agreement; and
- there being no competing offer or alternative proposal for the Company that becomes or is declared wholly unconditional prior to completion of the Subscription.

Depending on the eventual size of the Placing, the Investor's resulting shareholding in the Company is expected to be between 34.6% and 39.9% of COLG's enlarged share capital following completion of the capital raise. The Investor has agreed to a lock-up (subject to customary exceptions) in respect of its shares for a period of 12 months following completion of the Subscription.

With effect from completion of the Subscription, the Investor will enter into a relationship agreement with the Company which will impose certain restrictions on the Investor to ensure that the Company can operate its business independently of the Investor. In addition, for so long as the Investor holds 20% or more of the issued share capital, the Investor shall have the right to nominate two directors (and two observers) to the board of COLG. For so long as it holds 10% or more of the issued share capital, the Investor shall have the right to nominate one director (and observer) to the Board. Subject to the prior approval of the PRA, which the Company will use all reasonable endeavours to obtain, for so long as the Investor holds 10% or more of the issued share capital the Investor shall have the right to nominate one director (and observer) to the board of Recognise. In addition, for so long as the Investor holds more than 30% of the issued share capital, COLG shall, at the request of a director nominated by the Investor, convene a general meeting at which certain reserved matters shall be proposed for consideration and, if thought fit, approved by Shareholders. COLG has agreed that it will not increase the size of the Board without the Investor's approval (not to be unreasonably withheld).

Pursuant to the terms of a lock-up agreement to be entered into between the Company and Max Barney Investments Limited ("MBIL"), MBIL has agreed to a lock-up (subject to customary exceptions) in respect of its shares in the Company for a period of 12 months following completion of the Subscription. Under that same agreement, for as long as MBIL holds 10% or more of the issued share capital, MBIL shall have the right to appoint a director to the Board of COLG until the later of the expiry of that lock-up agreement and repayment in full of its preference shares in Credit Asset Management Limited. In addition, DV4 Limited ("DV4") has agreed to an orderly markets undertaking in respect of its shares in the Company for a period of 12 months following completion of the Subscription. DV4 will also have the right, for so long as it holds 10% or more of the Company's issued share capital, to appoint an observer to the COLG Board.

The Placing

In addition to the Subscription, the Company intends to seek to raise, through the Placing, up to £5,000,000 through the issue of up to a further 6.25 million shares at a price of 80 pence per share. The Placing will give a limited opportunity for certain existing shareholders and potential new investors to invest at the same price as the Investor at the Company's discretion. Although it is



expected that the Placing will complete at the same time as the Subscription, the timing and the final number of shares to be issued will be determined by the Company in its absolute discretion and further details will be announced in due course. The Placing will not be underwritten in whole or in part.

Approvals in connection with the capital raise

Completion of the Subscription and the Placing is conditional upon the granting by special resolution of the Company's shareholders of sufficient authority to the directors to allot and issue the relevant new shares (among other things). As announced on 18 August 2020, the Board is seeking authority at the Company's 2020 annual general meeting, to be held on 30 September 2020, to issue up to 50,000,000 new shares, which will be sufficient authority for the Subscription and the Placing if the relevant resolutions are passed.

The Company intends to apply for admission to trading of the Subscription shares and, if applicable, the Placing shares, on the AIM Market of the London Stock Exchange in due course. Further announcements regarding the progress of the capital raise will be made by the Company in due course.

Takeover Code

COLG is subject to the City Code on Takeovers and Mergers (the "Takeover Code") which is administered by the Panel on Takeovers and Mergers (the "Takeover Panel"). Under Rule 9 of the Takeover Code, if any person acquires an interest in shares which, when taken together with shares in which he and persons acting in concert with them are already interested, carry 30% or more of the voting rights of a company which is subject to the Takeover Code, that person is normally required to make a general offer in cash to all shareholders in the company at the highest price paid by them or any person acting in concert with them for an interest in such shares within the preceding 12 months. Rule 9 also provides that if any person, together with persons acting in concert with them, is interested in shares which in the aggregate carry not less than 30% of the voting rights of a company which is subject to the Takeover Code but does not hold shares carrying more than 50% of such voting rights, and such person, or any person acting in concert with them, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in such company in which he is interested, that person is normally required to make a general offer in cash to all shareholders in the company at the highest price paid by him or any person acting in concert with them for an interest in such shares within the preceding 12 months.

Under Note 1 on the Notes on the Dispensations from Rule 9, the Takeover Panel will normally waive the requirement for a general offer to be made in accordance with Rule 9 (a "Rule 9 offer") if, inter alia, those shareholders of the company who are independent of the person who would otherwise be required to make an offer and any person acting in concert with them ("the Independent Shareholders") pass an ordinary resolution on a poll at a general meeting ("a Whitewash Resolution") approving such a waiver. The Takeover Panel may waive the requirement for a Whitewash Resolution to be considered at a general meeting (and for a circular to be prepared in accordance with Section 4 of Appendix 1 to the Code) if Independent Shareholders holding more than 50% of the company's shares capable of being voted on such a resolution confirm in writing that they would vote in favour of the Whitewash Resolution were one to be put to the shareholders of the company at a general meeting.

Following the transaction, the Investor will own between 30% and 50% of the issued ordinary shares in COLG. This would ordinarily trigger an obligation on its part to make a general offer for the entire



issued share capital of the Company in accordance with Rule 9 of the Takeover Code. The Takeover Panel has given a waiver of Rule 9 of the Takeover Code in order to permit the capital raise to proceed without a general offer needing to be made by the Investor on the basis that independent shareholders, who together hold over 50% of the shares currently in issue, have confirmed that they would not accept such an offer and would vote in favour of a whitewash resolution at a general meeting of the Company if it were held.

Two independent shareholders, DV4 and MBIL, in the Company hold in aggregate 31,496,482 ordinary shares in the issued share capital of the Company, representing 76.08% of the Company's issued share capital carrying voting rights, and have absolute discretion over the manner in which these shares are voted. These shares are held free of all liens, pledges, charges and encumbrances. Save for the fact that the two shareholders and the Investor will be shareholders in the Company following completion of the Subscription and other than the existence of irrevocable undertakings to exercise their votes as shareholders in order to effect the Subscription and the lock-up agreement described above, there is no connection between DV4, MBIL and the Investor. The two shareholders do not have any interest or potential interest, whether commercial, financial or personal, in the outcome of the Fundraising, and they are both an Independent Shareholder of the Company as defined above.

In connection with the Subscription, DV4 and MBIL have:

- (a) consented to the Takeover Panel granting a waiver from the obligation for the Investor to make a Rule 9 offer to the shareholders of the Company;
- (b) consented to the Panel dispensing with the requirement that the waiver from such obligation be conditional on a Whitewash Resolution being approved by Independent Shareholders of the Company at a general meeting; and
- (c) would vote in favour of a Whitewash Resolution to waive the obligation for the Investor to make a Rule 9 offer were one to be put to the independent shareholders of the Company at a general meeting.

Further share issuances

The Company is planning to issue a total of 5,807,000 new ordinary shares to the Company's employee benefit trust to satisfy future share awards to COLG employees.

Market Abuse Regulation

This announcement is released by the Company and contains inside information for the purposes of the Market Abuse Regulation (EU) 596/2014 ("MAR") and is disclosed in accordance with the Company's obligations under Article 17 of MAR. The person who arranged for the release of this announcement on behalf of the Company was Michael Goldstein, Chief Executive Officer.

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These forward-looking statements include, but are not limited to, all statements other than statements of historical facts and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, Company and its subsidiaries' respective future financial conditions and performance, results of operations and liquidity, strategy, plans, objectives, prospects, growth, goals and targets, future developments in the markets in which the Company and its subsidiaries participate or are seeking to participate, and anticipated regulatory changes in the industries in which the Company and its subsidiaries operate. By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. Readers are cautioned that forward-looking statements are not guarantees of future performance and are based on numerous assumptions. Given these risks and uncertainties, readers should not rely on forward looking statements as a prediction of actual results.

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