

UK Mortgages Ltd

Corporate Update

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7 August 2020

UK MORTGAGES LIMITED
(a closed-ended investment company incorporated in Guernsey with registration number 60440)
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Reiteration of material undervaluation of Possible Offer and Announcement of Review of Future Strategy

The Board of UK Mortgages Limited (“UKML”, or the “Company”) is pleased to announce a follow up to the strategic update announced on 22 July 2020.

The Chairman, Chris Waldron comments:

“The Board will always act in what it believes are the best interests of shareholders and, based on its detailed knowledge and understanding of the Company and its assets, reiterates its belief that the possible offer for the Company materially undervalues the Company and its prospects. In addition, the Board also announces that it will launch a review of future strategy. ”

Company and Market Background

The Company’s shareholders (“Shareholders”) approved in August 2019 revised investment and share buyback policies. As signalled, the first opportunity to enact the revised share buyback policy was expected to be on completion of the refinancing of the Oat Hill transaction. This refinancing was delayed by the temporary closure of the UK mortgage securitisation market due to Covid-19 and was completed as soon as practically possible after the market resumed trading. Following the successful securitisation of Oat Hill, a significant amount of capital will be released later this month. The excess capital will facilitate share buybacks whilst the Company’s share price continues to trade at a discount to the NAV per share.

The Oat Hill transaction was one of several transactions priced in the month of July in the primary UK RMBS market, which included a number of established lenders. As discussed in the June factsheet, published on 23 July 2020, the Oat Hill No.2 transaction was priced competitively at the tight end of the range.

In addition to the delay to the refinancing of the Oat Hill transaction, the beginning of the Covid-19 disruption in late March saw the FCA introduce a payment holiday scheme, whereby lenders were asked to offer payment deferrals to mortgage borrowers for an initial period of 3-months and later with the further ability to extend this period to up to 6 months. The scale of the initial take-up of deferrals introduced a level of uncertainty that was a factor in the Board’s decision to reduce its dividend but, as reported in greater detail in the Company’s most recent factsheet for June-2020, large numbers of borrowers are returning to making payments as their initial period comes to an end rather than taking an extension. Moreover, the Board notes that on completion of the Oat Hill transaction there will continue to be a release of yield income in the form of the pull-to-par on the portfolio, which was acquired at a discount.

Furthermore, as mentioned in previous communications to Shareholders, securitisation funding markets have continued to improve and the technical outlook for RMBS supply, particularly from the bank sector where issuers benefit from

alternative low-cost central bank funding schemes such as the TFSME, is expected to be positive for RMBS spread performance in the medium term. Prime bank RMBS spreads have already returned to levels seen before the Covid-19 outbreak, and with most regular non-bank issuers now having come to market since the lockdown ended, the Board considers there will likely be a lull in further issuance whilst stocks of loans are rebuilt. This is supported by the sharp drop in origination levels most will have suffered whilst mortgage markets were effectively closed during the lockdown, and the Board considers this will offer further positive momentum to spread performance.

This is coupled with improving housing market conditions where the removal of stamp duty on the first £500,000 of any housing transactions until next April, is having a positive effect with estate agents reporting a significant increase in business, which the Board considers will aid refinancing for borrowers and support property prices, both of which should be positive for loan performance.

In addition, the Board recognises the desire of Shareholders for any dividend to be both sustainable and covered by income.

As a consequence of all of the above, on 22 July 2020, the Board, following a review of the observed portfolio performance and market outlook, announced its intention to declare:

- an additional interim dividend in respect of the Company's year ended 30 June 2020 of 1.5p per share; and
- four quarterly dividends of 1.125p per share in respect of the Company's current financial year to 30 June 2021.

Possible Offer

On 20 July 2020, the Board noted the announcement of the same day by M&G Investment Management Ltd ("MAGIM") (the "Possible Offer Announcement"), in its capacity as manager of M&G Speciality Finance Fund (GBP) SCSp (the "Fund"), regarding the possible cash offer by the Fund for the entire issued and to be issued share capital of the Company (the "Possible Offer"). In the Possible Offer Announcement the Possible Offer price was stated as 67 pence per UKML share and the making of a firm offer was stated as being subject to certain pre-conditions and reservations (see Appendix 1). Shareholders should note that the Possible Offer was unsolicited and is conditional and that the Possible Offer Announcement does not amount to an announcement of a firm intention to make an offer for the Company under Rule 2.7 of the Takeover Code and there can be no certainty that any offer will be forthcoming.

On 22 July 2020, the Board of UKML announced that it had considered the proposal together with its financial adviser, Numis Securities Limited, and had unanimously rejected it on 19 July 2020, having concluded that the terms materially undervalue the Company and its prospects.

Since 22 July 2020, the Board has consulted extensively with Shareholders to seek perspectives on the Possible Offer as well as the Company's strategy and prospects. The Board confirms that it will always act in the interests of Shareholders and will assess any proposal against its assessment of the standalone prospects of the Company using the information and insight that it has at its disposal.

The Board continues to believe in the quality of the assets in the Company's portfolio as well as the quality of the investment management provided by TFAM. The Board restates its belief that the terms of the Possible Offer materially undervalue the Company and its prospects. It therefore sees no merit in engaging with MAGIM on a proposal that the Board does not consider to be in the best interests of Shareholders. The Board notes that there has been contact with MAGIM and MAGIM's financial adviser since the unanimous rejection of the Possible Offer on 19 July 2020 but that no further proposal has been received and so the Board confirms to Shareholders that it is not in discussions with MAGIM at this time.

Review of Future Strategy

In recent years, the Board has consulted with Shareholders with a view to amending and updating the investment proposition in response to the discount that the share price trades at versus NAV. The revised investment strategy approved by Shareholders in August 2019 was designed in consultation with Shareholders to address this. While the Board considers that the revised investment strategy has been implemented in an appropriate and timely manner, it recognises that the circumstances in which the Company operates have evolved since the revised investment strategy was approved and that it would be prudent to review, again, the Company's strategic direction in conjunction with the Company's investment manager.

The Board commits to commencing a review of future strategy once the Company is no longer in an Offer Period under the Takeover Code. This review would consider various aspects of the Company's strategy and operating model in current and expected future circumstances. The review would be with the aim of maximising the value created for and delivered to Shareholders from the high quality assets that are within the Company's portfolio and would seek to provide

Shareholders with a strategy that delivered an understood pathway to enhanced liquidity as well as a narrowing and removal of the discount at which the shares trade versus the NAV.

It is anticipated that the review would include but not be limited to the following:

- the continuing merits of the existing strategy approved by Shareholders in August 2019;
- the optimisation of assets, to release further funds;
- the gradual sale of the Company’s assets to release further capital;
- the reconstruction of the Company to facilitate its ongoing growth; and
- the orderly winding down of the Company.

For the avoidance of doubt, the review would commence following the conclusion of the Offer Period and would not consider a formal sale process under the Takeover Code, a merger, or the solicitation of a buyer or buyers to make an offer for the shares or substantially all of the assets of the Company.

The Board would seek to conclude the review within a few months of the end of the Offer Period. Shareholders would be consulted as part of this review and a Shareholder vote would be held to approve any recommendations made as a result of the review. Illustratively, if the Offer Period were to end on 17 August 2020, the Board would expect to be able to announce the conclusions of its review by no later than the date of publication of the Company’s annual report, which is required to be published by the end of October.

The Company will proceed with the implementation of its announced dividend and share buyback policies.

In summary, the Board will always act in the interest of Shareholders and, based on its detailed knowledge and understanding of the Company and its assets, reiterates its belief that the Possible Offer for the Company materially undervalues the Company and its prospects. The Board recognises that the circumstances in which the Company operates have evolved and therefore has committed to review the future strategy of the Company.

The Company notes that in accordance with Rule 2.6(a) of the Takeover Code, MAGIM has until 5.00pm on 17 August 2020, being 28 days after the date of the Possible Offer Announcement, to either announce a firm intention to make an offer for the Company in accordance with Rule 2.7 of the Takeover Code or announce that it does not intend to make an offer for the Company, in which case the announcement will be treated as a statement to which Rule 2.8 of the Takeover Code applies. This deadline will only be extended with the consent of the Company and the Takeover Panel in accordance with Rule 2.6(c) of the Takeover Code.

This statement is being made by the Company without the prior agreement or approval of MAGIM.

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Further information

The Company’s dividend guidance in respect of the year ending 30 June 2021 is a target only and not a profit forecast and there can be no assurance that this target will be met.

This announcement is not intended to and does not constitute an offer to buy or the solicitation of an offer to subscribe for or sell or an invitation to purchase or subscribe for any securities or the solicitation of any vote in any jurisdiction. The release, publication or distribution of this announcement in whole or in part, directly or indirectly, in, into or from certain jurisdictions may be restricted by law and therefore persons in such jurisdictions should inform themselves about and observe such restrictions.

Numis Securities Limited ("Numis"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively for UK Mortgages Limited and no one else in connection with the matters set out in this announcement and will not regard any other person as its client in relation to the matters in this announcement and will

not be responsible to anyone other than UK Mortgages Limited for providing the protections afforded to clients of Numis, nor for providing advice in relation to any matter referred to herein.

Forward looking statements

This announcement, oral statements made regarding the possible offer, and other information published by UK Mortgages Limited may contain statements which are, or may be deemed to be, “forward-looking statements”. Forward-looking statements are prospective in nature and are not based on historical facts, but rather on current expectations and projections of the management of UK Mortgages Limited about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. The forward-looking statements contained in this announcement include statements relating to the expected timing and scope of the Possible Offer. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as “plans”, “expects” or “does not expect”, “is expected”, “is subject to”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “should”, “would”, “might” or “will” be taken, occur or be achieved. Although UK Mortgages Limited believe that the expectations reflected in such forward-looking statements are reasonable, UK Mortgages Limited can give no assurance that such expectations will prove to be correct. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements should therefore be construed in the light of such factors. Neither UK Mortgages Limited, nor any of its associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. You are cautioned not to place undue reliance on these forward-looking statements. Other than in accordance with its legal or regulatory obligations (including under the Disclosure Guidance and Transparency Rules of the FCA), UK Mortgages Limited is under no obligation, and expressly disclaims any intention or obligation, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Dealing Disclosure Requirements

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person’s interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person’s interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel’s website at

www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Publication on website and availability of hard copies

A copy of this announcement and the documents required to be published by Rule 26 of the Code will be made available on UK Mortgages Limited's website at www.twentyfouram.com/funds/uk-mortgages-fund/ by no later than 12 noon (London time) on the business day following the date of this announcement. For the avoidance of doubt, the contents of the website are not incorporated into and do not form part of this announcement.

In accordance with Rule 30.3 of the Code, a person so entitled may request a hard copy of this Announcement, free of charge, by contacting Numis on +44 (0) 20 7260 1000. For persons who receive a copy of this Announcement in electronic form or via a website notification, a hard copy of this Announcement will not be sent unless so requested. In accordance with Rule 30.3 of the Code, a person so entitled may also request that all future documents, announcements and information be sent to them in relation to the Acquisition should be in hard copy form.

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The information contained within this announcement is deemed by UKML to constitute inside information as stipulated under the Market Abuse Regulation. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

Appendix 1 Details of MAGIM Possible Offer

On 20 July 2020, the Board noted the Possible Offer Announcement regarding the Possible Offer.

The Company confirmed that on 15 July 2020 it received an unsolicited and conditional proposal from MAGIM in relation to a possible cash offer at 67 pence per UKML share. Under the proposal, Shareholders would be entitled to receive and retain the 0.375 pence per share dividend for the fourth quarter of the Company's financial year ended 30 June 2020 (the "Fourth Interim Dividend"). MAGIM stated in the Possible Offer Announcement that any formal offer for UKML under the Takeover Code would be conditional on, amongst other things, satisfactory completion of diligence and the unanimous and unqualified recommendation by the UKML Board of Directors. MAGIM reserves the right to waive any or all of these pre-conditions to a firm offer, in whole or in part. MAGIM further reserves the right to announce an offer at a price below 67 pence per UKML share in the event that (a) the Board of UKML agrees and recommends an offer at the reduced price; (b) a third party announces a firm intention to make an offer for UKML; (c) UKML announces, declares or pays a dividend or any other distribution or return of capital to its Shareholders (other than the Fourth Interim Dividend) after the Possible Offer Announcement (in which case MAGIM reserves the right to reduce the offer price by an amount up to the amount of such dividend, distribution or return of capital); or (d) UKML announces a whitewash transaction pursuant to the Takeover Code. Given the 22 July 2020 announcement of the Company's intention to declare an additional interim dividend of 1.5p per UKML share, the Company draws the attention of Shareholders to the aforementioned reservation (c), where MAGIM has reserved the right to reduce the offer price by an amount of any dividend distribution or return of capital (other than the Fourth Interim Dividend).