City of London Group plc

Half-year results 2018

Contents

TIDM: CIN

19 December 2018

City of London Group plc

("COLG" or "the Company" and, together with its subsidiaries and associates, "the Group")

Results for the six month period ended 30 September 2018

The Company announces its unaudited interim results for the six month period from 1 April 2018 to 30 September 2018, along with an update on developments in the business.

Business developments

- Recognise continues to progress its UK banking licence application and develop its business model. On 11 December 2018, Simon Wainwright was appointed as Recognise's first non-executive director, bringing with him highly relevant executive experience and a deep understanding of the regulatory environment.

- Successful launch of Property & Funding Solutions Ltd, which provides bridging and development finance for commercial customers.

- Acquisition of Acorn to Oaks Financial Services Limited, a financial services intermediary based in the Midlands agreed, subject to FCA approval, to support future growth of CAML and Recognise.

- CAML completes the re-financing of another £6.1m block funding facility with Hampshire Trust Bank on competitive terms.

- Milton Homes' first half sales adversely affected by the general slow-down in the housing market which increased the time taken to complete sales but a number of sales in the pipeline are expected to complete in the second half.

- COLG, CAML, PFS and Recognise relocated to one office during the summer, thus facilitating collaboration amongst the Group's financial services businesses.

- The Company announced on 16 November 2018 that it intends to raise new capital of between £20m to £30m to support the development of its lending business in 2019.

Financial results

- Loss before tax £2.3m after absorbing costs of £0.8m associated with the UK banking licence application and the acquisition (2017/18 first half loss before tax £0.2m).

- Milton Homes business generates £1.4m cash in period for reinvestment by Group but it makes a loss of £0.9m before shareholder capital charges due to a negative house price change over the period.

- Consolidated NAV per share attributable to shareholders 74p (31 March 2018: 81p)

Michael Goldstein, Chief Executive Officer, commented:

"We are pleased with the progress of the Group as it continues to focus on its long-term growth strategy to serve the UK SME market. We have made positive and steady progress in our application for a UK-banking licence via our Recognise subsidiary, while developing our existing businesses in financial services, focusing on greater collaboration across the group to realise synergies in the future.

We are encouraged with the performance of CAML, reporting profit and growing its 'own book' portfolio in the period, and also PFS, establishing itself with lending activity having launched in April.

As we move forward, we have well-developed plans for the growth of Recognise. Coupled with key appointments to the executive team, and with preparations for a fund raise, we believe Recognise is now well-positioned for 2019, subject to receiving its 'invitation to apply' and the granting of a UK banking licence."

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Notes to Editors:
City of London Group plc is quoted on AIM (TIDM: CIN) and is the parent company of a forward-thinking organisation focused on serving the UK SME market. It is primed for the future, but grounded with traditional values and a strength and depth of expertise, looking to grow through its two-pronged strategy. The Group's expertise covers equity release, finance for the SME sector, and secured lending. The Group has experience with commercial banking and mortgages, and access to funding arrangements such as commercial, SME, bridging and development finance, home reversion plans, and asset and loan finance.

COLG ensures its services are always delivered with a personal touch, so clients know that they are more than a customer and have a partner that will work with them as they look towards the future.

www.cityoflondongroup.com

Chief Executive Officer's review

I am pleased to present this review which covers the period from 1 April 2018.

Business review

During the period, the Group has continued to focus on implementing its long term growth strategy, both in developing its existing businesses and in planning how best to raise, when appropriate, new capital to support the expected banking licence.

As set out below, Recognise has continued to progress its UK banking licence application, investing in its future by further building its executive team and developing and refining its operating model so that it will be well-placed to focus its business offering on the UK SME market, should it, as hoped, be granted a UK banking licence.

The Group's property bridging and development finance business, PFS, established itself during the period and, based on its lending activity to date, its future growth prospects are encouraging.

CAML, which provides business to business debt and asset finance to SMEs, continued to make steady progress in a competitive market over the period, growing its 'own book" portfolio to £16.9m in September and achieving a year-on-year revenue growth of 22%.

As part of its strategy to support the future growth of both CAML and Recognise, the Company has agreed, subject to FCA approval, to acquire Acorn to Oaks Financial Services Limited, a financial services intermediary business based in the Midlands that focuses on SME and landlord insurance products.

The Milton Homes' business has been adversely affected by current conditions in the housing market, which saw a general slow-down over the summer, with time taken to complete sales increasing and little or no movement in vacant property values. While Milton Homes generated cash of £1.4m in the six months to September 2018, its results were impacted by the lack of growth in property values as well as by a decline in the number of property reversions and sale completions. It is difficult to foresee the timing of a recovery in the housing market. Milton Homes is continuing to focus on maximising the cash generated from the sales of its properties as reversions occur.

Recognise Financial Services Limited ("Recognise")

The successful grant of a banking licence remains at the core of the Group's strategy to create a broadly-based business providing financial services to the UK small and medium-sized business market. This opportunity is undiminished with a growing SME population and new challenger banks increasing their market share and their lending and savings books. This is primarily at the expense of the larger incumbent players who, in recent years, have created remote business models which fail to deliver true relationship management, flexibility or genuine business understanding. This is the territory which Recognise will be looking to fill, delivered by a management team with a unique breadth and depth of industry experience.

The team, led by Jason Oakley, former MD, Commercial Banking at Metro Bank, continues to make good progress in line with expectations as it navigates through the comprehensive licence application process. The latest management appointment is Monica Velasquez-Torres as Chief Technology Officer. Monica was previously Technology Consultant at PwC and has advised six banking licence applicants, including Recognise. This recruitment is timely as Recognise is in the final stages of selecting its future technology platform provider and other key suppliers.

Recognise Financial Services Limited ("Recognise") (continued)

On 11 December 2018, Simon Wainwright was appointed as Recognise's first non-executive director. Simon Wainwright is currently MD and COO for Europe, Middle East and Africa at global reinsurer RGA and is also a non-executive director of National Counties Building Society. Prior to his present role, he held a number of senior positions at HSBC including CEO, HSBC Ireland, Head of Business Banking, UK and COO, Corporate and Structured Finance. He brings a wealth of relevant experience and a deep understanding of the regulatory environment to Recognise.

The Group's investment to achieve the Banking licence, which includes appropriate contingency, is being carefully managed and remains in line with budget.

Subject to continued progress and Regulator satisfaction, Recognise would hope to receive an 'invitation to apply' in the first half of 2019. This allows the new business to begin to gear up for future trading and is a key next step in the licence application journey which Recognise began earlier this year. If Recognise is successful in attaining a banking licence, it will bring a fresh face to the UK SME financing market with an operating model focused on the customer, an attractive range of lending and savings products but, most importantly, a highly professional team who have spent their careers working alongside businesses and who understand their needs and frustrations.

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL")

CAML made continued progress during the six-month period, with a profit before tax of £50k (2017: profit of £10k) and with its 'own book' portfolio increasing to £16.9m at September. Year-on-year revenue for the six month period increased by 22% to £1,261k (2017: £1,027k) with the volume of new business over the same period increasing by 14%.

A summary of the financial performance of the business is set out in the table below:

£'000	6 months to 30/09/18	6 months to 30/09/17	Year to 31/03/18
Revenue	1,261	1,027	2,138
Operating profit before shareholder capital charges	155	185	185
Profit/ (loss) before tax	50	10	(163)

In June, CAML acquired the managed joint venture fund from its joint partners (COLG and British Business Bank Investments Limited). The value of the portfolio acquired, which is in its amortisation phase, was £0.9m. The future income and other benefits arising from the transaction, which include the on-going reduction in management and administration time, exceed by far the management fee that would otherwise have been earned.

Although the market remains competitive, the level of new business achieved has improved and yields have stabilised, both of which have contributed to the increase in profit for the period. The re-financing of another £6.1m block funding facility with Hampshire Trust Bank during the period on competitive terms both ensures margins are maintained and provides a secure base to allow CAML to pursue development of new business opportunities.

CAML's operating profit was lower at £155k compared with £185k for the same period last year. The variance in the results between the two periods is largely accounted for by the fact that there was a lower charge for the impairment of receivables in the first half of last year. Staff resources and costs have continued to be strictly controlled.

CAML has strengthened its broker network over the period and remains well placed to grow its originations.

Property & Funding Solutions Ltd ("PFS")

The Group's business providing property bridging and development finance for commercial customers started to market for new lending opportunities in April.

PFS made its first loans in May and June. The market has proved receptive to the loan offering of PFS due to its responsiveness, the close relationships built with customers and the speed of delivery of funding. It is anticipated that its first year of operation will be profitable overall.

A summary of the financial performance of the business is set out in the table below:

£'000	6 months to 30/09/18
Revenue	51
Operating profit before shareholder capital charges	(23)
Loss before tax	(35)

Milton Homes Limited ("Milton Homes")

Milton Homes, the Group's equity release provider, has a portfolio of individual UK residential properties through its being a provider of types of home reversion plan. Under a home reversion plan the occupiers continue to live in their home until they die or move to a care facility. With some plans the occupier retains a share in the equity of the property. When a property is vacated Milton Homes sells it and distributes the sale proceeds, including any that may be due to the customer or their estate. Milton Homes does not currently take on new customers.

The result is a leveraged exposure to UK House Price Inflation ("HPI") without maturity concentrations given the spread of realisations over multiple years.

A summary of the financial performance of Milton Homes over the period is set out in the table below:

£'000	6 months to 30/09/18	6 months to 31/03/18 (a)
Revenue	1,737	3,590
Operating profit before shareholder capital charges	(898)	842
(Loss)/ profit before tax	(1,451)	295

(a) Milton Homes became a wholly-owned subsidiary of COLG on 5 October 2017.

During the period Milton Homes completed its detailed assessment of the potential for writing new home reversion business. Changes in the availability of suitable long-term financing have meant that no decision has been made to re-start acquisitions. The business continues to sell its properties as reversions occur, producing cash flow for re-investment in the Group.

The portfolio, which comprised interests in 531 properties at 30 September 2018, was externally valued at £72.8m at that date. The number of properties that reverted to Milton Homes during the period was 16 compared with 23 in the previous 6 months.

While Milton Homes generated cash of £1.4m over the 6 month period, its results were severely impacted by the effect of the reduction in the house price index (down by 0.12% in the period compared with an increase of 2.05% in the previous 6 month period) as well as by an increase in the time taken to complete sales due to the general slow-down in the housing market. The business is, however, expecting a number of sales that are in the pipeline to complete over the next few months.

As previously announced, Chris Rumsey will be retiring in May 2019. We would like to thank him for his efforts in building Milton Homes to its current position.

COLG

COLG continued to maintain strict control over its operating costs in the six months to 30 September 2018.

In July 2018, COLG moved to new offices, which are also occupied by CAML, PFS and Recognise, so allowing these businesses to work together collaboratively.

Related party transaction

The maturity dates of two existing loan facilities of £1,181,000 and £4,438,000 have been extended by one year to 31 December 2019 on the same terms, subject to payment of a facility fee of 0.75%, which was £42,142. The loan facilities were granted by HPB Pension Trust and Harvey Bard respectively.

The extension of the maturity dates constitutes a related party transaction under Rule 13 of the AIM Rules as the lenders are related parties under the AIM Rules.

The independent directors of the Company, having consulted with Peel Hunt LLP in its capacity as the Company's nominated adviser for the purposes of the AIM Rules, consider the terms of the transaction to be fair and reasonable insofar as the Company's shareholders are concerned.

Risks

The principal risks of the Group are reviewed by the Board, which reviews and agrees policies for managing these risks. The key risks described in the Strategic Report in the 2018 Annual Report are still appropriate. The management team of COLG and the Board are continuing to monitor events relating to Brexit and its potential impact although, as previously reported, any such risks surrounding Brexit have not materially impacted the business model or conditions faced by the Group to date with the possible exception of Milton Homes. This business has been affected by current house market conditions, which anecdotally have been attributed in part to the uncertainties of Brexit. The 2018 Annual Report also included information on financial risk management in Notes 32 and 33 of the financial statements.

Outlook

We continue to pursue our application for a UK banking licence with confidence. We believe that the current economic uncertainty will increase the opportunities available to us as alternative sources of credit finance become more difficult for the SME market to access.

Michael Goldstein
Chief Executive Officer

This half-yearly report may contain certain statements about the future outlook for COLG and its subsidiaries. Although the directors believe their expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes to be materially different. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking statements.

This half-yearly report has been drawn up and presented with the purpose of complying with English law. Any liability arising out of or in connection with the half-yearly report for the six months to 30 September 2018 will be determined in accordance with English law. The half-yearly results for 2018 and 2017 have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

19 December 2018

Unaudited interim results

Condensed consolidated income statement

	Notes	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
Revenue	2	3,058	1,062	5,782
Cost of sales	2	(12)	-	(7)
Gross profit		3,046	1,062	5,775
Administrative expenses	4			
Banking licence application, including acquisition of Recognise Financial Services		(764)	-	(406)
Acquisition of Milton Homes		-	-	(669)
Acquisition of Acorn to Oaks Financial Services	12	(52)	-	-
Other		(2,108)	(855)	(2,913)
Share of profits of associates		6	56	103
Other income		89	63	114
Profit from operations		217	326	2,004
Finance expense		(2,474)	(526)	(3,059)
Loss before tax		(2,257)	(200)	(1,055)
Tax expense	5	(100)	-	(130)
Loss for the period		(2,357)	(200)	(1,185)
Loss for the period before costs associated with acquisitions and banking licence application		(1,541)	(200)	(110)
Costs associated with acquisitions and banking licence application		(816)	-	(1,075)
Loss for the period		(2,357)	(200)	(1,185)
Loss for the period attributable to				
Owners of the parent		(2,162)	(200)	(1,132)
Non-controlling interests		(195)	-	(53)
Loss for the period		(2,357)	(200)	(1,185)
Basic and diluted earnings per share attributable to owners of the parent (a)	7	(7.41)p	(1.33)p	(7.53)p

(a) Earnings per share for the six months to 30 September 2017 has been restated to reflect the capital re-organisation in October 2017.

All the operations in both the six months to 30 September 2018 and the year to 31 March 2018 are continuing.

Unaudited interim results

Condensed consolidated statement of comprehensive income

	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
Loss from continuing operations	(2,357)	(200)	(1,185)
Total comprehensive (expense)/income	(2,357)	(200)	(1,185)
Total comprehensive expense attributable to:			
Equity holders of the parent	(2,162)	(200)	(1,132)
Non-controlling interests	(195)	-	(53)
	(2,357)	(200)	(1,185)

Unaudited interim results

Condensed consolidated balance sheet

	Notes	30/09/18 £'000 (unaudited)	31/03/18 £'000 (audited)	30/09/17 £'000 (unaudited)
Assets				
Non-current assets				
Investment properties	8	43,484	44,926	-
Financial assets – equity release plans	9	29,347	30,213	-
Intangible assets		2,180	2,180	-
Property, plant and equipment		61	16	10
Interests in associates		-	292	245
Other investments		138	138	138
Loans		4,336	4,506	4,117
Finance leases		2,429	2,689	2,583
Total non-current assets		81,975	84,960	7,093
Current assets				
Loans		7,112	6,291	4,827
Finance leases		2,348	2,352	2,256
Trade and other receivables		1,784	1,566	2,072
Cash and cash equivalents		4,794	6,685	3,146
Total current assets		16,038	16,894	12,301
Total assets		98,013	101,854	19,394
Current liabilities				
Borrowings		(8,822)	(9,331)	(5,150)
Trade and other payables		(2,006)	(2,578)	(4,166)
Total current liabilities		(10,828)	(11,909)	(9,316)
Non-current liabilities				
Borrowings		(64,955)	(65,494)	(9,280)
Deferred tax liability		(784)	(684)	-
Total non-current liabilities		(65,739)	(66,178)	(9,280)
Total liabilities		(76,567)	(78,087)	(18,596)
Net assets		21,446	23,767	798
Equity				
Share capital		4,233	4,233	3,685
Share premium		37,720	37,720	14,332
Accumulated losses		(20,255)	(18,136)	(17,219)
Equity attributable to owners of the parent		21,698	23,817	798
Non-controlling interests	10	(252)	(50)	-
Total equity		21,446	23,767	798

Unaudited interim results

Condensed consolidated statement of changes in equity

	Attributable to owners of the parent company				Attributable to non-controlling interests	Total Equity
	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000	£'000	£'000
At 31 March 2018						
As originally presented (audited)	(18,136)	37,720	4,233	23,817	(50)	23,767
IFRS 9 adjustment to opening provision for impairment (note 15)	10	–	–	10	–	10
Restated total equity at 31 March 2018	(18,126)	37,720	4,233	23,827	(50)	23,777
Loss for the period – continuing operations	(2,162)	–	–	(2,162)	(195)	(2,357)
Total comprehensive income	(2,162)	–	–	(2,162)	(195)	(2,357)
Contributions by and distributions to owners						
Value of employee services	24	–	–	24	–	24
Increase in non-controlling interests	9	–	–	9	(7)	2
Total contributions by and distributions to owners	33	–	–	33	(7)	26
At 30 September 2018 (unaudited)	(20,255)	37,720	4,233	21,698	(252)	21,446

Unaudited interim results

Condensed consolidated statement of changes in equity (continued)

	Attributable to owners of the parent company				Attributable to non-controlling interests	Total Equity
	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000	£'000	£'000
At 31 March 2017	(17,019)	14,332	3,685	998	-	998
Loss for the period –continuing operations	(200)	–	–	(200)	-	(200)
Total comprehensive income	(200)	–	–	(200)	-	(200)
At 30 September 2017 (unaudited)	(17,219)	14,332	3,685	798	-	798
Loss for the period – continuing operations	(932)	–	–	(932)	(53)	(985)
Total comprehensive income	(932)	–	–	(932)	(53)	(985)
Contributions by and distributions to owners						
Value of employee services	15	-	-	15	-	15
Issue of shares	-	23,388	548	23,936	-	23,936
Total contributions by and distributions to owners	15	23,388	548	23,951	-	23,951
Shares issued to non-controlling interests	-	-	-	-	3	3
At 31 March 2018 (audited)	(18,136)	37,720	4,233	23,817	(50)	23,767

Unaudited interim results

Condensed consolidated statement of cash flows

	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
Cash flows from operating activities			
Loss before taxation	(2,257)	(200)	(1,055)
Adjustments for:			
Depreciation	11	6	18
Share-based payments	24	-	15
Share of profits of associates	(6)	(56)	(103)
Investment properties and equity release plan financial assets:			
Increases in the fair value of these assets	(852)	-	(2,364)
Realised gains on the disposal of these assets	(472)	-	(417)
Equity transfer income	(413)	-	(809)
Interest payable	2,474	526	3,059
Changes in working capital:			
(Increase) in trade and other receivables	(217)	(10)	(262)
(Decrease)/ increase in trade and other payables	(655)	(234)	320
Leases advanced	(956)	(1,197)	(3,707)
Leases repaid	1,773	1,485	3,793
Loans advanced	(7,740)	(5,014)	(10,366)
Loans repaid	6,887	4,444	7,643
Loans repaid by related parties	375	575	875
Cash (used in)/ generated from operations	(2,024)	325	(3,360)
Corporation tax paid	-	-	–
Net cash (used in)/ generated from operating activities	(2,024)	325	(3,360)
Cash flow from investing activities			
Proceeds from the sale of investment properties and equity release plan financial assets	4,128	-	4,392
Receipt of deferred consideration arising from prior year disposal of assets held for sale	-	770	770
Return of seed capital in legal case investments	-	2	2
Distribution of profits from related parties	297	35	35
Proceeds re shares to non-controlling interests)	2	-	3
Purchase 50% interest in joint venture partnerships (note 11)	(726)	-	-
Purchase of investment properties and equity release plan financial assets	(83)	-	(34)
Purchase of property, plant and equipment	(56)	-	(7)
Acquisition of Milton Homes, net of cash acquired	-	-	(5,001)
Net cash generated from investing activities	3,562	807	160
Cash flow from financing activities			
Proceeds from issue of ordinary shares	-	1,784	10,736
Loans drawn down	11,130	2,802	13,290
Repayment of loans	(14,166)	(3,903)	(15,047)
Interest paid	(393)	(432)	(857)
Net cash (used in)/ generated from financing activities	(3,429)	251	8,122

Unaudited interim results

Condensed consolidated statement of cash flows (continued)

	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
Net (decrease)/ increase in cash and cash equivalents	(1,891)	1,383	4,922
Cash and cash equivalents brought forward	6,685	1,763	1,763
Net cash and cash equivalents	4,794	3,146	6,685
Cash and cash equivalents	4,794	3,146	6,685
Bank overdraft	-	-	–
Net cash and cash equivalents	4,794	3,146	6,685

Notes to condensed financial statements

1 Basis of preparation

1.1 These interim financial results do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. Statutory accounts for the year ended 31 March 2018 were approved by the directors on 11 July 2018 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement within the meaning of section 498 of the Companies Act 2006.

1.2 Accounting policies

These condensed consolidated financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting” as adopted by the European Union. The condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2018, which were prepared in accordance with IFRS as adopted by the European Union. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed consolidated financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company’s published consolidated financial statements for the year ended 31 March 2018, except for those changes in accounting policies that have been applied with effect from 1 April 2018.

1.3 Adoption of new standards and interpretations

In the current financial period, the Group has adopted IFRS 9 ‘Financial Instruments’, which as explained in note 2.1 of the consolidated financial statements for the year ended 31 March 2018, introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting. Further Information on IFRS 9 and its basis of its implementation by the Group is given in note 15.

The Group has also adopted IFRS 15 ‘Revenue from Contracts with Customers’, which introduces a 5-step approach to the timing of revenue recognition based on performance obligations in customer contracts.

1.4 Consistency

The interim report, including the financial information contained therein is the responsibility of, and was approved by, the directors on 19 December 2018. The AIM Rules require that accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing annual accounts except where any changes, and the reason for them, are disclosed. As disclosed in note 1.3 above, the Group has adopted IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ in the current financial period, as required under IFRS rules.

On adoption of IFRS 9 ‘Financial Instruments’, the Group has elected not to restate comparatives on its initial application of IFRS 9. Accordingly, an adjustment of £10,000 has been made to the retained earnings as at 31 March 2018 to reflect the difference between the impairment allowance measured in accordance with the IFRS 9 model adopted by the Group as at that date and the provision for impairment determined in accordance with IAS 39.

The adoption of IFRS 15 ‘Revenue from Contracts with Customers’ has had no material impact on the results or net assets of the Group.

Notes to condensed financial statements

Continued

2 Revenue and cost of sales

Revenue	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
Milton Homes (a)	1,737	-	3,590
CAML (b)	1,261	1,027	2,138
Property & Funding Solutions – interest and arrangement	51	-	
Other – interest receivable	9	35	54
Total revenue	3,058	1,062	5,782
(a) Milton Homes			
Profit on disposal of investment properties	297	-	235
Gain on revaluation of investment properties	629	-	2,029
Profit on the disposal of equity release plan financial	175	-	182
Gain on revaluation of equity release plan financial assets	223	-	335
Equity transfer income arising under equity release	413	-	809
	1,737	-	3,590
(b) CAML			
Loan and lease interest	1,254	952	1,983
Arrangement fees	35	25	60
Management fee income	(28)	50	95
	1,261	1,027	2,138
Cost of sales			
Commissions and introduction fees	12	-	-
Costs on acquisition of interests in investment properties/ equity release financial assets	-	-	7
Total cost of sales	12	-	7

3 Segmental reporting

A reportable segment is identified based on the nature and size of its business and risk specific to its operations. It is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of the Company.

The Group is managed through its operating businesses: the provision of home release plans to the equity release market and loan, lease and professions financing. A subsidiary is in the process of making a banking licence application. Information on the activities of each business is given in the Chief Executive Officer's review. The COLG segment includes the Group's central functions.

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Pre-tax profit and loss 6 months ended 30/09/18 (unaudited)	Revenue £'000	Operating profit/(loss) £'000	Share of profits of associates £'000	Finance expense £'000	Quasi-equity intra group payments £'000	Profit/(loss) before tax £'000
COLG						
Intra-Group	565	602	-	(58)	-	544
Acquisitions and banking licence application	-	(104)	-	-	-	(104)
Other	-	(564)	-	-	-	(564)
	565	(66)	-	(58)	-	(124)
Platforms						
Equity release provider	1,737	1,094	-	(1,992)	(553)	(1,451)
Lease and professions financing						
CAML/ PFL	1,261	470	-	(420)	-	50
Other	9	9	6	(4)	-	11
Property bridging finance	51	(23)	-	-	(12)	(35)
Banking licence application	-	(712)	-	-	-	(712)
Other	-	4	-	-	-	4
Intra-Group	(565)	(565)	-	-	565	-
	3,058	211	6	(2,474)	-	(2,257)

The Profit from operations in the Consolidated income statement of £217,000 is the sum of £211,000 and £6,000 as shown above.

The quasi-equity intra group payments comprise interest payable to COLG.

Pre-tax profit and loss 6 months ended 30/09/17 (unaudited)	Revenue £'000	Operating profit/(loss) £'000	Share of profits and losses of associates £'000	Finance expense £'000	Profit/(loss) before tax £'000
COLG					
Intra-Group	70	87	-	(58)	29
Other	-	(255)	-	(36)	(291)
	70	(168)	-	(94)	(262)
Platforms					
Lease and professions financing					
CAML/ PFL	1,027	401	-	(391)	10
Other	94	94	56	(99)	51
Other	35	1	-	-	1
Intra-Group	(164)	(58)	-	58	-
	1,062	270	56	(526)	(200)

The Profit from operations in the Consolidated income statement of £326,000 comprises the sum of £270,000 and of £56,000 as shown above.

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Consolidated Net Assets at 30/09/18 (unaudited)

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	19,800	
	Loans, lease and professions financing	2,465	
	Banking licence application project	1,007	
	Other	150	
			23,422
	Other net assets		222
Net assets per entity balance sheet			23,782
Other net liabilities of subsidiary companies			(2,336)
Consolidated net assets			21,446

Consolidated Net Assets at 31/03/18 (audited)

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	20,247	
	Loans, lease and professions financing	2,465	
	Banking licence application project	1,007	
	Other	150	
			23,869
	Other net liabilities		(137)
Net assets per entity balance sheet			23,870
Other net liabilities of subsidiary companies			(103)
Consolidated net assets			23,767

Consolidated Net Assets at 30/09/17 (unaudited)

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Lease and professions financing	2,010	
	Other	150	
			2,160
	Net liabilities		(1,576)
			722
Other net assets of subsidiary companies			76
Consolidated net assets			798

The Board reviews the assets and liabilities of the Group on a net basis.

Notes to condensed financial statements

Continued

4 Administrative expenses

	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
Staff costs			
Payroll expenses	1,473	451	1,569
Other staff costs	44	12	30
Establishment costs			
Property costs	217	78	336
Other	517	190	833
Auditor's remuneration	65	50	177
Legal fees	149	20	336
Consultancy fees	273	-	96
Other professional fees	174	48	593
Depreciation	12	6	18
Total	2,924	855	3,988
Expenses relating to:			
Banking licence application project (Year to 31 March 2018 includes acquisition of Recognise Financial Services)	764	-	406
Acquisition of Acorn to Oaks Financial Services Limited	52	-	-
Acquisition of Milton Homes Limited	-	-	669
Other administrative expenses	2,108	855	2,913
	2,924	855	3,988

5 Taxation

	6 months to 30/09/18 £'000 (unaudited)	6 months to 30/09/17 £'000 (unaudited)	Year to 31/03/18 £'000 (audited)
UK corporation tax			
Current year charge	-	-	–
Deferred tax			
Relating to origination and reversal of temporary differences	100	-	130
Total tax expense	100	-	130

Because the charge for taxation is for a period of less than one year, the provision is based on the best estimate of the effective rate for the full year.

The charge for deferred tax relates to gains arising from the revaluation of investment properties and takes account of losses that can be offset against the gains.

Notes to condensed financial statements

Continued

6 Dividends

The directors have not declared an interim dividend for the year ending 31 March 2019 (2017/18: nil). The directors did not recommend payment of a dividend for the year ended 31 March 2018.

7 Earnings per share

Basic and diluted earnings per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period less those held in treasury and in the Employee Benefit Trust.

	30/09/18 (unaudited)	30/09/17 (unaudited) (restated)	31/03/18 (audited)
Loss attributable to equity holders (£'000)	(2,162)	(200)	(1,132)
Weighted average number of ordinary shares of 2p in issue ('000)	29,184	15,025	15,025
Basic and diluted earnings per ordinary share of 2p	(7.41)p	(1.33)p	(7.53)p

The weighted average number of ordinary shares in issue in the period to 30 September 2017 has been adjusted to reflect the capital reorganisation in October 2017 and the earnings per share for that period has been restated on that basis. The basic and diluted earnings per share are the same as, given the loss for the year, the outstanding share options would reduce the loss per share.

8 Investment properties

	30/09/18 £'000 (unaudited)	31/03/18 £'000 (audited)	30/09/17 £'000 (unaudited)
At 1 April	44,926	-	-
On acquisition of Milton Homes on 5 October 2017	-	45,390	-
Additions	12	24	-
Disposals	(2,083)	(2,516)	-
Revaluations	629	2,028	-
At end of period	43,484	44,926	-
Investment properties	36,916	37,788	-
Investment properties held for sale	6,568	7,138	-
	43,484	44,926	-
Numbers of properties			
At 1 April	302	-	-
On acquisition of Milton Homes on 5 October 2017	-	317	-
Additions	-	-	-
Disposals	(12)	(15)	-
	290	302	-

Notes to condensed financial statements

Continued

9 Financial assets – equity release plans

	30/09/18 £'000 (unaudited)	31/03/18 £'000 (audited)	30/09/17 £'000 (unaudited)
At 1 April	30,213	–	-
On acquisition of Milton Homes on 5 October 2017	-	30,517	-
Additions	71	10	-
Equity transfer	413	809	-
On ending of plans	(1,573)	(1,458)	-
Revaluations	223	335	-
At end of period	29,347	30,213	-
Financial assets – equity release plans	27,833	27,741	-
Financial assets – equity release plans held for sale	1,514	2,472	-
	29,347	30,213	-
Numbers of properties			
At 1 April	250	-	-
On acquisition of Milton Homes on 5 October 2017	-	258	-
Additions	1	-	-
Disposals	(10)	(8)	-
	241	250	-

10 Non-controlling interests

	30/09/18 £'000 (unaudited)	31/03/18 £'000 (audited)	30/09/17 £'000 (unaudited)
At 1 April	(50)	-	-
Shares issued to non-controlling interests	-	3	
Loss attributable to non-controlling interests	(195)	(53)	-
Transferred from equity on the sale of shares to non-controlling interests	(7)	-	-
At end of period	(252)	(50)	-

In July 2018, the Company's equity interest in Recognise Financial Services Limited was reduced from 73% to 72% following the transfer of shares to the existing non-controlling interests for a consideration of £2,014.

Under IFRS3, such a reduction in a parent's ownership interest in a subsidiary is accounted for as an equity transaction. An amount of £9,000, being the difference between the consideration received for the shares and the reserves transferred to the non-controlling interests was credited to equity as a reserve movement.

Notes to condensed financial statements

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11 Related party transactions

Amounts due from associates

	30/09/18 £'000 (unaudited)	31/03/18 £'000 (audited)	30/09/17 £'000 (unaudited)
Amounts due from associates are included in:			
Non-current assets			
Loans	-	375	675
Current assets			
Trade and other receivables	-	217	213
Total	-	592	888

In June 2018 Credit Asset Management Limited ("CAML") acquired the 50% interest in the two joint venture limited partnerships, COLG SME LP and COLG SME Loans LP, held by British Business Investments Limited for a consideration of £726,000. CAML also acquired the 50% interest held by a fellow subsidiary on equivalent terms before transferring all the loan and lease agreements held by the limited partnerships to CAML or its subsidiary, Professions Funding Limited, at their fair values. The limited partnerships then ceased their business activities and will be dissolved after their affairs have been wound up.

12 Commitments

The holder of the £3,000,000 7% Redeemable Preference Shares issued on 15 July 2015 by a subsidiary, Credit Asset Management Limited, may require the Company to purchase these shares at their face value and any accrued but unpaid dividend if the shares are not redeemed after 7 years.

As at 30 September 2018, the Company was committed to provide funding of up to £1.5 million to progress the UK banking licence application that is being submitted by Recognise Financial Services Limited (previously Echo Financial Services Limited) under the terms of the Shareholders' Agreement. In addition, if the Company determines that additional funding is required, the Company and J Oakley, a minority shareholder, will provide Shareholder Loans in equal proportions up to an amount of £1.5m ie a maximum of £0.75m each.

The Company has put and call option arrangements over the equity interest in Recognise Financial Services Limited held by the executives. The maximum amount payable by the Company to acquire the equity interest is £5,600,000: the consideration will be satisfied by the issue of the Company's ordinary shares. Neither the put or call option was deemed to have a material value as at 30 September 2018.

Notes to condensed financial statements

Continued

12 Commitments (continued)

Under the terms of an agreement entered into on 27 July 2018, subject to receiving FCA approval the Company has a commitment to acquire all the shares of Acorn to Oaks Financial Services Limited ("Acorn to Oaks"), a financial services intermediary business focussing on SME and landlord insurance products, for an initial consideration of £1,408,000. Further earn-out consideration, based on a six-times multiple of the average annual profit before tax for the three year period up to 31 March 2022, may be payable which could increase the consideration to a maximum of £5,000,000.

92% of the shares are owned by a vehicle controlled by J Oakley and his wife Claire Oakley, the Chief Executive of Acorn to Oaks. The initial consideration in respect of the shares controlled by Mr and Mrs Oakley will be satisfied by way of zero-coupon loan notes that can be converted into shares of the Company following the preparation of the financial statements of Acorn to Oaks for the year ended 31 March 2021. The other shareholders of Acorn to Oaks will receive ordinary shares of the Company. In both cases, the share conversion calculation will be based on a price per share of 140.341p, being the 30 days average price to 26 July 2018.

The business of Acorn to Oaks complements that of Credit Asset Management Limited and it will facilitate the growth of the lending business of both Credit Asset Management Limited and Recognise Financial Services Limited, should it be granted a banking licence.

13 Financial risk management

Notes 32 and 33 to the annual financial statements to 31 March 2018 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk, interest rate risk, price risk, foreign exchange risk and liquidity risk.

The 2018 Annual Report identified the main risk factors around the cash flow forecast in the Strategic Report at that time.

The Company has a revolving credit facility of £4.4m with a maturity of 31 December 2019. All the facility was undrawn at 30 September 2018. Since 30 September 2018, £1.7m has been drawn down under the facility.

Notes to condensed financial statements

Continued

14 Financial instruments

Price risk

The Group is subject to price risk on both its investment properties and its financial assets – equity release plans as well as on its legal case investments. The valuation of each of these is a Level 3 valuation in the fair value hierarchy ie the valuation techniques use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The bases of assessing the fair values of the investment properties and financial assets – equity release plans are set out in note 3 of the annual financial statements to 31 March 2018. The sensitivity analysis to changes in unobservable inputs for both investment properties and financial assets – equity release plans is:

- increases in estimated investment terms and rates would result in a lower fair value; and
- decreases in estimated investment terms and rates would result in a higher fair value.

Due to the aggregated nature of the investment property and financial asset portfolio it is not possible to accurately quantify sensitivity of an individual input.

The fair value of investments in legal funds is taken to be cost because as at 30 September 2018 there was not a sufficient track record on which to base a valuation. There is no material sensitivity on the valuation of the legal case investments.

Due to their short maturity profiles, management is of the opinion that there is no material difference between the fair value and carrying value of trade and other receivables, cash and cash equivalents, and trade and other payables. The directors therefore consider that the carrying value of financial instruments equates to fair value.

The following tables present the Group's assets that are measured at fair value at 30 September 2018 and 31 March 2018 respectively. No Level 1 or Level 2 assets were held at either date.

Level 3 valuation **30 September 2018 (unaudited)**	**Total** **£'000**
Investment properties	43,484
Financial assets – equity release plans	29,347
Other Investments	138
	72,969

Level 3 valuation **31 March 2018 (audited)**	**Total** **£'000**
Investment properties	44,926
Financial assets – equity release plans	30,213
Other Investments	138
	75,277

Notes to condensed financial statements

Continued

14 Financial instruments (continued)

Price risk (continued)

The movement on level 3 assets is as follows:

	30/09/18 (unaudited) £'000	31/03/18 (audited) £'000	30/09/17 (unaudited) £'000
Balance at 1 April	75,277	140	140
Additions – on acquisition of Milton Homes on 5 October 2017		75,907	-
Additions	83	34	-
Equity transfer	413	809	-
Revaluations	852	2,363	-
Disposals	(3,656)	(3,976)	(2)
Balance at 31 March	72,969	75,277	138

15 Implementation of IFRS 9

IFRS 9 'Financial Instruments' which is the replacement for IAS 39 'Financial Instruments: recognition and measurement' is being applied for the first time in the Group's financial statements for the year ending 31 March 2019.

The Group has elected not to restate comparatives on initial application of IFRS 9.

IFRS 9 introduces new requirements for:
- classification and measurement of financial assets and financial liabilities
- impairment methodology and
- hedge accounting.

As the Group does not use any hedging instruments, the IFRS 9 requirements on these do not apply.

Classification and measurement

A single classification and measurement model is to be used for financial assets, which is dependent on the entity's business model for managing financial assets and the contractual cash flow characteristics of those financial assets

Financial assets fall into one of three principal classification categories: (i) amortised cost, (ii) fair value through profit and loss or (iii) fair value through other comprehensive income. Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

The financial assets and liabilities of the Group and the basis of measurement are set out below. The adoption of IFRS 9 with effect from 1 April 2018 has not resulted in any changes in classification categories nor in the basis of measurement of items within each category:

15 Implementation of IFRS 9 (continued)

Financial assets – equity release plans: The Group owns rights to increasing beneficial interests in residential properties in the UK through Property Plan agreements. The values of these interests are, subsequent to initial recognition at cost, measured at fair value with changes recognised in the consolidated income statement. Directly attributable transaction costs are excluded from the initial cost of financial assets which are fair valued through profit or loss. These assets continue to be measured at fair value through profit and loss ('FVTPL').

Finance leases, hire purchase agreements and loans: These are held solely for the collection of contractual cash flows, being interest, fees and repayments of principal. These assets continue to be held at amortised cost.

Legal case investments: These are carried at fair value and gains and losses arising from changes in fair value of each fund are recognised in other comprehensive income. These assets continue to be measured at fair value through other comprehensive income ('FVOCI').

Trade payables, financial liabilities and trade receivables are held solely for the collection and payment of contractual cash flows, being payments of principal and interest where applicable. These will continue to be held at amortised cost.

Adjustment to reserves at 1 April 2018

As stated below, the IFRS 9 model adopted by the Group is subject to further refinement and development in future as experience is gained in its use in on-going business operations and the results generated are analysed and assessed.

The impairment allowance as at 31 March 2018 measured in accordance with the IFRS 9 model adopted by the Group has been assessed as £1,110,000, a decrease of £10,000 compared with the provision for impairment of £1,120,000 at that date under the IAS 39 incurred loss model.

The carrying amount of financial assets and liabilities in accordance with IAS 39 as at 31 March 2018 and the equivalent under IFRS 9 at 1 April 2018 are as shown below. All categories are measured at amortised cost under both IAS 39 and IFRS 9 unless stated otherwise.

	IAS 39 Net carrying amount £'000	Impact of adopting IFRS 9 £'000	IFRS 9 Net carrying amount £'000
Financial assets			
Financial assets – equity release plans (FVTPL)	30,213	-	30,213
Other assets – Legal case investments (FVOCI)	138	-	138
Loans	10,797	4	10,801
Finance leases	5,041	6	5,047
Trade and other receivables	1,566	-	1,566
Cash and cash equivalents	6,685	-	6,685
Financial liabilities			
Interest bearing borrowings	74,825	-	74,825
Trade and other payables	2,578	-	2,578

Notes to condensed financial statements

Continued

15 Implementation of IFRS 9 (continued)

The carrying amount of loans and finance leases as at 1 April 2018 comprised the following:

Agreements categorised under IFRS 9 as being in:	Stage 1 £'000	Stage 3 £'000	Total £'000
Gross amounts receivable	15,847	1,121	16,968
Impairment allowance	(273)	(837)	(1,110)
	15,574	284	15,858

No agreements were categorised as being in Stage 2 at that date.

Impairment methodology

IFRS 9 introduces a new expected credit loss model for calculating impairment losses in place of the incurred credit loss model that applies under IAS 39. This requires entities to account for expected credit losses ('ECL') at the time of initial recognition of the financial asset and to account for changes in ECL at each reporting date to reflect changes in credit risk since initial recognition.

Entities are required to have regard to information about current conditions and reasonable forecasts about future expectations when assessing ECL. The process of assessing ECL will involve the exercise of judgement by management which includes, inter alia, the estimation of probabilities of defaults, the exposures at default, the losses given default and the assessment of increases in credit risks, in the context of the future economic scenarios that may apply to the category of financial assets being considered.

The impact of adopting the impairment methodology of IFRS 9 in place of IAS 39 is expected to lead to more variability in year-on-year impairment charges in response to the increased use of estimates relating to future events, compared with IAS 39 which was based on an incurred loss model.

However, the adoption of IFRS 9 by the Group with effect from 1 April 2018 has not resulted in a material change in the impairment provisions carried in respect of finance leases, hire purchase agreements and loans at that date.

The provision for impairment for finance leases, hire purchase agreements and loans made under IAS 39 comprised two elements:

- specific provisions on amounts owed made on an individual basis by reference to past default experience, any change in the credit quality of the customer and other recoverability information, including an assessment of expected future cash flows and
- collective impairment provision which assessed impairments existing at the balance sheet date that would not become evident until a future date.

The collective impairment provision was calculated by grouping the financial assets by type (whether finance lease, commercial loan or professional loan) and on the basis of similar credit risk categories, with risk scores obtained from a third party credit risk agency. The provision for each category was based on past default experience for financial assets falling within that category and assessed the expected loss over the lifetime of agreements within the category. This approach, which was used for some years, proved to give an overall provision for impairment that reflected the loss experience of the portfolio.

15 Implementation of IFRS 9 (continued)

While this methodology did not take explicit account of future expectations, the use of credit scores from an outside credit risk agency to allocate agreements into risk categories did to some extent reflect such expectations as the algorithms used by credit agencies reflect forecasts for particular industry sectors and demographics. As the Group's lease and loan portfolio is not highly concentrated in terms of either economic sector or geographical area, the most important general factor influencing future losses of the portfolio overall will be the future strength of the UK economy, as shown in UK growth forecasts.

Key concepts and management judgements

The impairment requirements set out in IFRS 9 are complex and require the exercise of management judgements,

As part of its adoption of IFRS 9, the Group has been undertaking an extensive exercise to develop and document its rationale for selecting an ECL methodology appropriate for its current lease and loan portfolio. The methodology has been applied to develop a model from which an impairment allowance can be determined: the application of the methodology and the model will be refined and developed over the next few months as experience is gained from its on-going use.

The key concepts and management judgements made include the following:

- Whether there has been a significant increase in credit risk ('SICR') since the inception of an agreement
- Definition of default and credit-impaired assets
- Forward looking information to be used in calculating ECLs

The Group considers both quantitative and qualitative information when considering if there has been a SICR. A significant reduction in a credit risk score by a credit agency or the receipt of information on existing or future adverse changes affecting a customer, in conjunction with an expert credit risk assessment, would result in such an assessment, which is made at individual agreement level.

A financial instrument is defined to be in default when it meets one or more of the following criteria:

Quantitative criteria: an agreement is in default when contractual payments are more than 90 days past due.

Qualitative criteria: contractual payments are less than 90 days past due but, having regard to known circumstances such as an insolvency arrangement, it is judged unlikely that future payments will be made in full.

The definition of default has been applied consistently to model the items that are used in the calculation of ECLs – the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD'). Expert judgement, which includes the assessment of amounts likely to be recovered from personal guarantees and other sources, is applied to assess the LGD of an agreement.

An instrument is considered to be no longer in default (ie have been cured) when it no longer meets any of the default criteria.

15 Implementation of IFRS 9 (continued)

The Group recognises ECLs from default events expected within 12 months of the reporting date if there has not been a SICR since the initial recognition of the financial instrument (Stage 1) and lifetime ECLs for financial instruments where there has been a SICR since initial recognition (Stage 2) or which are credit impaired (Stage 3). Specific provisions are made on an individual basis on credit impaired financial instruments in accordance with laid-down policies.

Modelling techniques

To determine which forward-looking information is most relevant to use in calculating ECLs for the Group's current lease and loan portfolio, the Group has analysed historical data on its portfolio by individual sectors (finance leases and hire purchase agreements, commercial loans and professional loans) which has been used to identify the key economic variables affecting credit risk and the expected credit losses of each sector. Expert judgement has also been applied and, given that the current portfolio is not highly concentrated in any one sector or geographical area, it has been determined that the forward-looking information which is most relevant is that applying to the UK economy as a whole. Such economic forecasts (the 'base economic scenario'), which are produced by the Bank of England provide the current most likely forecast of the performance of the economy over the next few years.

Under IFRS 9, the Group is required to consider other forward looking scenarios in addition to the base economic scenario. The Group has considered the impact of two other scenarios – one with stronger economic growth than the base case (a best case scenario) and one with less economic growth (a worst-case scenario). The final ECL has been calculated by applying a weighted probability of the results of each scenario considered, with the weighting made according to management judgement of each scenario's likelihood. As any economic forecast is subject to inherent uncertainties, the actual outcomes may be significantly different from the forecasts.

The expected credit losses are determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together which effectively calculates an expected credit loss for each future month, which is then summed. This calculation is undertaken for each economic scenario and the final loss allowance as at that date is calculated by probability weighting the results.

By order of the Board

Michael Goldstein
Chief Executive Officer
19 December 2018