City of London Group

Annual Report and Accounts 2020

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"City of London Group PLC ('COLG' or 'The Company') is the parent company of a group focused on serving the UK SME market.

Highlights

Business development

In July 2020 COLG's subsidiary, Recognise Financial Services Limited, reached a major milestone on its journey towards becoming a bank when the PRA issued its Total Capital Requirement (TCR) letter. This letter sets out the PRA's capital and liquidity requirements for Recognise.

Subject to the successful conclusion of these discussions and regulatory and shareholder approval, the Group now expects Recognise to receive its Authorisation with Restriction (AWR) as a bank, subject to it meeting any final requirements from the PRA and the FCA, in the fourth quarter of 2020.

Due to COVID-19 all new lending across the Group has been put on hold since March 2020. All new lending operations will be made through Recognise: the PFS loan book will transfer to Recognise to increase its capital base.

Acorn to Oaks Financial Services Limited successfully set up its commercial finance broking division and delivered a profit in the year before taking account of prior year costs, in spite of reduced volumes in the latter part of the year due to COVID-19 impact.

The Company is currently in advanced discussions with a third party on a fund raise.

The Board currently expects Recognise to receive authorisation to take deposits and to obtain a full banking licence in the first half of 2021.

Existing loans outside Recognise will continue to maturity with staff transferring to Recognise.

Milton Homes business was adversely affected by the general slow-down in the housing market and temporarily by COVID-19 but generated £1.5m cash during the year.

Financial results

£9.7m loss

Loss before tax after absorbing costs of £3.4m associated with applying for UK banking licence (2019: loss before tax £3.5m after absorbing costs of £1.7m associated with applying for UK banking licence and an acquisition).

60p

Consolidated NAV per share attributable to shareholders[a] (2019: 83p).

(a) See note 34 for basis of calculation.

Reports

Pages 4 and 5 comprise the Chairman's statement, pages 6 to 18 the Strategic report, pages 27 to 29 the Directors' Remuneration report and pages 30 to 33 the Directors' report, all of which are presented in accordance with English company law. The liabilities of directors in connection with these reports shall be subject to the limitations and restrictions provided by such law. These reports are intended to provide information to shareholders and are not designed to be relied upon by any other party or for any other purpose.

Disclaimer

This annual report and accounts may contain certain statements about the future outlook for City of London Group plc and its subsidiaries. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

OVERVIEW

City of London Group is a forward-thinking organisation focused on serving the UK SME market. While grounded in traditional values, it is primed for future growth through the strength and depth of expertise in its expanding team.

The Group's expertise covers finance and services for the SME and home reversion plans sectors.

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.

SME services

Recognise Financial Services Limited ("Recognise")

Recognise has a strategy to build a fully licensed bank serving the UK SME market and accepting deposits from business and retail savers. With a strong and experienced executive team in place since early 2018, Recognise continued the process of applying for a UK banking licence during the year. It reached a major milestone in July 2020 when it received the TCR letter from the PRA which sets out the PRA's capital and liquidity requirements. Recognise now hopes to receive its Authorisation with Restriction as a Bank subject to meeting any final requirements from the PRA and FCA in due course.

Property & Funding Solutions Ltd ("PFS")

PFS offers short-term property loans for acquisitions, refinancing, refurbishments and developments to its customers. The business ensures customers receive a consistent and reliable point of contact with a relationship manager and access to decision makers. Loan terms are always structured to fit individual business plans, personal to the customer, with a focus on certainty of delivery and speed of execution.

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

CAML is a business to business provider of debt finance to UK SMEs. Until the Group placed a hold on all new lending in March 2020 in response to COVID-19, it provided asset backed finance and commercial loans to SMEs and, through PFL, loans to professional practice firms, sourcing business through a national network of finance intermediaries. Following the Board's decision to originate all new lending activity through Recognise, the current CAML loan and lease portfolios have now entered their run-off phase.

Acorn to Oaks Financial Services Limited ("Acorn to Oaks")

Acorn to Oaks is an independent financial services intermediary authorised by the FCA which provides whole of market broking advice services for general insurance, commercial finance broking, regulated mortgages, protection, pensions and investments. It focuses on the SME and property markets and works with a wide client base across the UK.

Home reversion plans

Milton Homes Limited ("Milton Homes")

Established in 2004, Milton Homes administers a portfolio of home reversion plans, based on either traditional or innovative models, giving the Group an exposure to the UK residential property market.

Abbreviations

AIM	Alternative Investment Market
AWR	Authorisation with Restriction
ECL	Expected Credit Loss
FCA	Financial Conduct Authority
ICAAP	Internal Capital Adequacy Assessment Process
IFA	Independent Financial Advisor
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
KPI	Key performance indicator
LGD	Loss given default
PD	Probability of default
PRA	Prudential Regulation Authority
SICR	Significant increase in credit risk
TCR	Total Capital Requirement

Chairman's statement

"

The issuance of a TCR letter from the PRA in July 20 will, subject to the successful outcome of our current advanced discussions on a fund raise and regulatory approval, enable the company to implement its long-term growth strategy of serving the UK SME market.

I am pleased to report another year of positive activity within City of London Group during which we have continued to focus on the Group's long-term growth strategy of serving the vital UK SME market by establishing a new business bank. Although the impact of COVID-19 on the UK economy was very significant in the final two months of the financial year, this has not unduly delayed our plans nor our programme for setting up the new bank's operational infrastructure.

Business model and strategy

2020 was an important year in the evolution of the Group's business model and strategy. The Board and Executive team have worked closely together to implement the strategy that will best drive value for all our stakeholders.

Recognise Financial Services Ltd, our subsidiary applying for the banking licence, achieved two important milestones when it submitted an application for a banking licence in November 2019 and received a Total Capital Requirement (TCR) letter in July 2020, which sets out the PRA's capital and liquidity requirements for Recognise. The next step in the process will be to receive formal Authorisation with Restriction (AWR) from the PRA. We believe we are very close to completing this complex journey.

We are currently in advanced discussions with a third party on a fund raise. Subject to the successful conclusion of these discussions and shareholder approval, as well as meeting any final requirements from the PRA and FCA, the funds raised will be used to provide capital for Recognise to move to a full licence by the first half of 2021 and support its short-term lending activities.

The strategy for Recognise remains robust and is potentially even more relevant given the unprecedented impact of COVID-19. It is to create a new UK SME Bank, using versatile cloud-based technology, to support a relationship-led lending operation which will focus on delivering service excellence with speed of decision-making and execution alongside flexibility of structuring.

Chairman's statement / continued

Having one of the most experienced management teams amongst the new bank applicants, Recognise will present a fresh face to customers and brokers, and will build a regional presence in the North West, Yorkshire, Midlands and the South, without the potential distraction of a legacy loan book.

Governance

During the year, the Board considered the revisions to the 2018 UK Corporate Governance Code and took steps to ensure the Company was compliant with the Code where applicable. The Board believes that the Company's corporate governance framework remains robust and effective for a company of its size and stage of development and reflects good governance practice. The governance structure of the Company will be kept under review in anticipation of Recognise receiving its banking licence from the regulators. Pages 17 and 18 contain the Company's Section 172 statement which outlines the Company's stakeholders and how the Directors have met their duties under this section. The full Corporate governance statement can be found on pages 22 to 26.

Board changes

In accordance with the Company's Relationship Agreement with DV4 Limited, DV4 Limited is entitled to appoint a Director to the Board of the Company. The Board announced the appointment of Lorna Brown as a Non-Executive Director of the Company on 14 May 2020 in accordance with the terms of the Relationship Agreement. Lorna's appointment to the Board further strengthens the Board's experience in the financial services industry. Paul Milner transitioned from an Executive Director to a Non-Executive Director with effect from 1 May 2020.

AGM matters

The Board is seeking authority at the AGM to issue up to 50,000,000 new shares. As in 2019, this is a much larger amount than the authority which would normally be sought but will allow COLG to raise the new equity required to finance the plan for Recognise as explained above.

The Board does not recommend payment of a dividend.

Outlook

A summary of the Group's activities during the year and the impact of the COVID-19 pandemic on the Group's businesses is given in the Strategic report.

The Board is continually assessing the Group businesses in the context of our operating model and future business plans.

COLG intends to continue implementing its long-term strategy of developing financial services to serve the UK SME market. Subject to the successful outcome of current discussions on a fund raise and regulatory approval, the Group is well-placed to achieve its objective of Recognise being granted a full UK banking licence in the first half of 2021. This will allow the Group to develop a business focusing on the SME market.

Colin Wagman
Chairman

17 August 2020

STRATEGIC REPORT

Strategic report

Business activities

The Group operated in three business areas during the year ended 31 March 2020 as well as continuing to progress an application for a UK banking licence through its subsidiary, Recognise.

When, as hoped, Recognise is granted a UK banking licence, the Group intends to transact all new lending activity through Recognise.

The business areas were:

- providing loan and lease finance to the UK SME market through PFS, a property bridging finance company, and CAML, which offered asset-based finance and commercial and professional loans;
- acting as a financial services intermediary focusing on the SME and property markets through Acorn to Oaks; and
- administering a portfolio of home reversion plans through Milton Homes.

A review of each business is included on pages 9 to 11.

Financial summary

	2020 £'000	2019 £'000
Home reversion plans[a]	(2,602)	(1,785)
Loan, lease and professions financing[a]		
Asset based finance, commercial and professional loans	(1,336)	271
Property bridging finance	58	10
Financial services intermediary	(36)	55
Other	(8)	6
Holding company[b]	(2,385)	(308)
	(6,309)	(1,751)
Costs associated with banking licence application[b]	(3,351)	(1,738)
Loss before tax	(9,660)	(3,489)

[a] stated after quasi-equity intra group payments of interest.
[b] 2019 includes costs associated with an acquisition.

On a consolidated basis the key performance indicators for the Group are:

	31 March 2020	31 March 2019
Loss for year before costs associated with banking licence application	(6,309)	(1,751)
Costs associated with banking licence application[a]	(3,351)	(1,738)
Loss before tax for the year (£'000)	(9,660)	(3,489)
Consolidated net assets per share (attributable to owners of the parent)	60p	83p

[a] 2019 includes costs associated with an acquisition.

Strategic report / Business activities / continued

In addition to the increased costs associated with the banking licence application, the results for the year were affected by COVID-19 and in particular its impact on the housing market.

The effects of COVID-19 were shown in both the increased provision for bad and doubtful debts in CAML and in the valuation of the Milton Homes' properties in March 2020, although, as stated below, our most recent experience on sales values achieved since the year end is encouraging.

The increase of £4.5m in the loss for the year before costs associated with the banking licence application from £1.8m to £6.3m is largely accounted for by:

- reduction of £0.9m in revenue earned by Milton Homes;
- increase of £1.3m in the charge for bad and doubtful debts;
- increase of £1.5m in the provisions for impairment of goodwill; and
- increase of £1.1m in staff costs.

Current activities

In March 2020, the COVID-19 outbreak was classified as a pandemic by the World Health Organisation. We have been monitoring its impact on the Group closely and have taken all necessary precautions, as advised by the government, to ensure the safety of our employees, whilst continuing operations.

At this stage, we are satisfied with how the Group has responded to COVID-19, with most of our staff now working from home.

In order to concentrate on delivering the central plank of the Group's strategy and in response to COVID-19, all new lending across the wider Group has been on hold since March 2020. Going forward all new lending activity will be originated through Recognise. The existing PFS loan book, which comprises short-term bridging loans, will also transfer across to Recognise.

Existing leases and loans, originated by Credit Asset Management Ltd (CAML) and Professions Funding Ltd (PFL), will continue to maturity but will remain outside Recognise. A number of staff have transferred to Recognise as part of the Group's forward recruitment plans.

Milton Homes was adversely affected by conditions in the housing market during the year and, temporarily, by COVID-19, the impact of which was also reflected in the property valuation at 31 March 2020. However, our most recent experience with the property portfolio has been positive with the sales values being achieved better than one might expect in the current UK property market. Our experience since the balance sheet date is that the number of sales is in line with our plan with the sale prices achieved being at or above market valuation. In the period to the end of July we sold £3.2m of properties at or above valuation. Although this recent trading is pleasing, we are aware that the housing market is likely to face headwinds as the economic impact of COVID-19 increases unemployment over the next year or so.

Review of the businesses

CAML
CREDIT ASSET MANAGEMENT LIMITED

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL") – Asset Based Finance, Commercial and Professional Loans

(a) Description of the business and business model

CAML is a business to business provider of debt finance to UK SMEs which originates business through a national network of specialist asset, commercial and professional loans brokers. It provides asset backed finance and commercial loans to SMEs and, through its subsidiary PFL, loans to professional practice firms.

(b) Financial review

A summary of the financial performance of CAML and PFL is set out in the table below:

£'000	31 March 2020	31 March 2019
Revenue	2,035	2,428
Operating (loss)/ profit before shareholder capital charges	(1,126)	481
(Loss)/ profit before tax	(1,336)	271

The results for the year reflect the large increase in the size of the provisions held largely as a result of the COVID-19 pandemic, with additional provisions of £1,138k being made in March 2020. While £508k of the increase arose from reassessing specific provisions required on agreements already in default (Stage 3 agreements under IFRS 9), £630k relates to future losses on Stage 1 agreements which were not currently in default but, from the IFRS 9 model, are expected to go into default in the next 12 months as well as Stage 2 agreements. The provisions were made after taking account of forward-looking indicators, including information obtained from CAML's telephone customer contact programme described below.

When the likely effect of the COVID-19 pandemic became apparent in early March, CAML undertook an extensive telephone customer contact programme to determine the extent of the impact on its customers' businesses and hence on their ability to meet payments due to CAML and PFL. As appropriate, customers were offered reduced payments, interest only and full capital and interest moratoriums for 3 months. This exercise was well received by customers and a follow-up programme was undertaken in June and July. The information obtained from these direct customer contacts was used to inform the IFRS 9 provisioning exercise undertaken as at 31 March 2020.

During the year, CAML focused on the professions loan and asset finance sectors rather than the commercial loans sector. As a result of the focus on achieving larger deals with improved credit quality, there was a fall of c16% in net yields. This was expected due to competitive downward market pressure in both the professions loan and asset finance sectors.

There was a year on year reduction in revenue from £2.4m to £2.0m which was attributable to the realignment of business focus during the year and the reduction in the commercial loans sector.

There was a decrease in new business volumes of 5% over the year: this reflected the impact of COVID-19 with very little new business being written in the period immediately before CAML ceased lending.

To provide liquidity and ensure availability of future funding, CAML concluded one tranche of re-financing in October 2019 for £3.5m, which was made on fixed rate competitive terms to protect margins from interest rate risk.

The key performance indicators are the book size of the portfolio (the current net investment in loans/leases provided) and new business levels (measured by the monetary value of new business).

The size of the "own book" portfolio fell by 8% to £14.8m (2019: £16.1m). While new business volumes were broadly ahead over the period to January 2020, there was a reduction in the last 2 months of the year. Historically, these months are good for new business volumes and the reduced size of the portfolio mirrored the fall in new business volumes.

PFS PROPERTY & FUNDING SOLUTIONS

Property & Funding Solutions Ltd ("PFS") – Property Bridging Finance

(a) Description of the business and business model

PFS, which provides property bridging and development finance for commercial customers, continued to establish itself in the short-term loan market, having launched successfully in May 2018.

The market has proved receptive to its loan offering due to its responsiveness, the close relationships built with customers and the certainty of delivery of funding. PFS continued to undertake repeat business with customers so validating its business model in a growing sector with many lenders.

Strategic report / Review of the businesses / continued

(b) Financial review

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

£'000	31 March 2020	31 March 2019
Revenue	631	293
Operating profit	282	122
Profit before tax	58	10

Having launched successfully in 2018, PFS expanded its team recruiting a senior lending manager in June 2019 and a business development manager in February 2020 as well as securing an external funding line to supplement Group cash resources. This has enabled PFS to deliver lending growth and improve its trading performance. Broker initiated business is the primary origination channel in the bridging loan sector and PFS has broadened its existing network through the development of new introducer relationships which have supported the business.

The COVID-19 pandemic and resultant lockdown have impacted the residential and commercial property markets. As a result, PFS paused new lending in March 2020 focusing on managing its existing loan book and maintaining regular contact with its customers. None of the loans made by PFS is currently non-performing. PFS continues to monitor COVID-19 developments with a view to re-commencing lending.

Acorn To Oaks Financial Services Limited ("Acorn To Oaks") – Financial Services Intermediary

(a) Description of the business and business model

Acorn to Oaks is an independent financial services intermediary authorised by the FCA which provides whole of market broking advice services for general insurance, commercial finance broking, regulated mortgages, protection, pensions and investments. It focuses on the SME and property markets and works with a wide client base across the UK.

(b) Financial review

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

£'000	31 March 2020	31 March 2019 (3 months)[a]
Revenue	746	224
Operating profit before prior period costs	19	55
Prior period costs	(55)	-
Operating (loss)/ profit	(36)	55
(Loss)/ profit before tax	(36)	55

[a] Acquired by COLG on 7 January 2019.

The year was one in which Acorn to Oaks laid foundations for the future with the establishment of both its commercial finance broking division and a London base from which to access more readily the general insurance SME market in London and the South-east. The cost of advancing these business developments is reflected in the results, which were also impacted by the effect of the COVID-19 pandemic in the final two months of the year, when several commercial finance brokerage transactions did not proceed as planned.

The prior period costs relate to an overstatement of un-invoiced revenue of £28k and the omission of an accrual for commission of £27k in the results reported for 2019.

It is not yet clear when there will once again be significant activity in the SME market, including in relation to commercial finance brokerage. However, Acorn to Oaks is ready to re-engage with the market when activity resumes, and will seek to implement its expansion plans, albeit later than anticipated.

At 31 March 2020, Acorn to Oaks acquired the 49% minority interest in Acorn to Oaks Associates Limited that it did not already hold. The business was transferred to Acorn to Oaks with effect from 1 April 2020 and Acorn to Oaks Associates Limited will be dissolved in due course.

Strategic report / Review of the businesses / continued

MILTON HOMES

Milton Homes Limited ("Milton Homes") – Home Reversion Plans

(a) Description of the business and business model

Milton Homes, the Group's equity release provider, administers a portfolio of individual UK residential properties through being a provider of home reversion plans. A home reversion plan entails an occupier selling all, or part, of the ownership of their home to Milton Homes in return for a rent-free life tenancy. Milton Homes purchases the fixed amount of equity in a property at a discount in exchange for the life tenancy, making it an efficient way to invest in long term house price appreciation in the UK. The occupiers continue to live in their home until they die or move to a care facility. After this Milton Homes sells the vacant property and distributes the sale proceeds, including any that may be due to the customer or his estate. Milton Homes is realising its portfolio as reversions occur.

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

(b) Financial review

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

£'000	31 March 2020	31 March 2019
Revenue	3,643	4,556
Operating loss before shareholder capital charges	(1,679)	(754)
Loss before tax	(2,602)	(1,785)

Milton Homes' day-to-day business has not changed since October 2017; it is continuing to sell its properties as reversions occur, producing cash flow for re-investment in the Group. The portfolio, which comprised interests in 473 properties at 31 March 2020 (2019: 510 properties), was externally valued at £68.95m at that date (2019: £71.5m). The number of properties that reverted to Milton Homes during the year was 49 compared with 35 in the previous year.

While Milton Homes paid cash of £1.5m to COLG during the year, its results were severely impacted by the effect of COVID-19 on the year-end valuation of properties as at 31 March 2020, despite an increase in the house price index (increase of 1.81% in the year compared with an increase of 0.44% in the previous year). Its results were also affected by an increase in the time taken to complete sales due to the general slow-down in the housing market.

However, since late May, there has been increasing interest in its properties, with several offers having been received on some properties in line with or above valuation. Milton Homes currently has 17 properties either under offer or on the market with a total sales value of £3.6m. A further 20 properties will shortly be put on the market.

Risk management

The principal and emerging risks of the Group are reviewed and assessed by the Board at least twice each year. A summary of the key risks is set out below together with their mitigation strategies.

COVID-19

COVID-19 emerged as a global pandemic towards the end of the first quarter of 2020. As governments, including in the UK, took action to contain its spread by imposing lockdowns and other restrictions, there was an immediate adverse impact on economic activity and on many businesses. The actions taken by the Company to mitigate the effect on the Group are set out on page 14.

The potential emerging risks arising from COVID-19 on the Group's businesses include the following:

- lower property values that impact the realisation value of properties held by Milton Homes;
- increased level of defaults on loans and leases as a result of lower economic activity in the UK affecting the viability of UK SME businesses; and
- reduced demand for loans from SMEs which may make Recognise's growth plans more challenging.

There is a risk that a second wave of the pandemic in the future could depress economic activity in the UK further and hence increase the potential risks to the Group's businesses.

Credit risk

Credit risk particularly arises in CAML and PFS. This is mitigated in different ways. For the leasing business the exposure is reduced by ownership of the asset which can usually be resold or re-leased. In the case of commercial and professional loans, personal guarantees are obtained wherever possible and, in any event, the professional reputation of the partners of the firm is at stake. For bridging and development finance, funding is secured over the property and supplemented by debentures and personal guarantees. In all cases there is a well-defined process for approval including credit committees with specific delegated powers. See note 33(i) for Financial risk management in relation to credit risk.

Weak property market

The Group is adversely affected by a weak property market through Milton Homes and through its lending businesses. Factors that mitigate the risks within the lending businesses of CAML and PFS are the level of loan to value, covenants given and, where appropriate, recourse to other forms of credit protection. Milton Homes is impacted by movements in the residential property market which delay sales or reduce sale values. PFS is affected by movements in both commercial and residential markets. CAML is impacted by the overall consequences of a weak property market on the economy and the resultant effects on the business performance of its customers.

Interest rate risk

Where lending is longer term as in professional lending or leasing then borrowing rates are fixed at the start to avoid interest rate exposure. Group borrowing is all at fixed rates. See note 33(iv) for Financial risk management in relation to interest rate risk.

Legal and regulatory risk

Legal and regulatory risk relates primarily to the activities of Acorn to Oaks and Recognise.

Acorn to Oaks is an independently regulated whole of market firm and is authorised by the FCA to provide regulated products and services as advisor and broker, and has client money permissions in relation to its insurance distribution activities. Acorn to Oaks, established in 2008, has well-defined processes in relation to ensuring it complies with its regulatory obligations. Given its relatively small size within the Group, its maturity and strong management, COLG views the legal and regulatory risks arising to the Group as low.

A regulatory risk arises in relation to the application made by Recognise for a UK banking licence as the regulatory permissions and their associated timings are uncertain and, potentially, may result in increased costs and delays in implementation of the Group's strategy.

The risk of other legal and regulatory non-compliance (including non-compliance with the AIM rules) is mitigated by the expertise within the Board and the use of external advisers, whose appointment and terms of reference are, as appropriate, agreed after consultation with the Board.

Strategic report / Risk management / continued

CAML, which lends only to businesses, is regulated for those businesses that fall within the Consumer Credit Act and has full permission to operate under the FCA consumer credit regulations. The risk of non-compliance by CAML is considered low as these regulated activities constitute only a very small part of its overall revenue. PFS is not FCA regulated and undertakes only non-regulated lending.

Four subsidiaries of Milton Homes are FCA regulated.

Cash flow

The Board assesses its future capital and liquidity requirements regularly and, as part of its overall group strategy, has developed plans to access new funding as required. The businesses have annual budgets that include budgeted cash forecasts and funding requirements. There are some mitigations which could be invoked to reduce working capital requirements including cost cutting and managing the growth of the businesses.

Competition

There is a risk that the Group may become subject to increased competition in sourcing and making investments in the event that liquidity comes back into the SME market from the high street banks and other investors. This could lead to the businesses finding it difficult to invest at the planned yields. This risk is mitigated by specialist expertise and by increased sales and marketing activity. In the case of the loans and leasing business the speed of credit decisions and the quality of operations is a key differentiator.

Brexit and political uncertainty

The Board considers that the withdrawal of the United Kingdom from the European Union is a key risk given the potential for unfavourable terms, the uncertainty around market conditions that may result, and the political uncertainty arising. An unfavourable exit may impact the UK's post COVID-19 recovery. To date these risks have not materially impacted the business model or conditions faced by the Group. The management of COLG and the Board will keep this risk under review and monitor events and the impact surrounding Brexit.

Cyber risk

The Board has considered risks arising from cyber-crime and IT resilience and considers the current operating model of the Group mitigates the risk of business disruption. These risks will be kept under review in the light of the Group's strategic goals.

People/succession

There is a risk that key management leave the business which may compromise the business. To mitigate this risk, management is incentivised with equity and bonuses comparable with the market.

COVID-19

The Board acted swiftly to address the risks arising from COVID-19. At the March Board meeting a decision was taken to place a moratorium on all new lending across the Group until the situation was better understood.

The management of each group company was asked to prepare a report on the impact of COVID-19 on its business, which has been updated and shared with the Board regularly.

A monthly group cashflow review was also put in place and extra Board meetings were held to consider the findings. Group businesses were tasked with identifying actions and mitigating steps to reduce the impact of COVID-19 and the associated shutdown. These were presented and the proposals were endorsed at a Board meeting in April.

A summary of the actions taken is set out below.

A moratorium on all new lending was put in place across the business and this remains in force:

- As a result, PFS honoured its committed pipeline but stopped lending to new customers from the end of March.
- CAML stopped new lending and undertook an extensive telephone customer contact programme offering, where appropriate, reduced payments, interest only and full capital and interest moratoriums for 3 months.

The Board took further steps, which were agreed across the Group by the businesses and implemented after the necessary consultations:

- Furlough employees via the government approved scheme: 3 in Milton Homes, 4 in Acorn to Oaks and 3 in CAML. The Board agreed to top up the salaries of furloughed employees to 100%.
- Defer recruitment and non-essential capital expenditure.
- Defer part of the salaries of senior staff who earn more than £60k per annum (40% deferral in excess of £60k) and 40% of non-executive directors' fees until Recognise receives its AWR as a bank.
- Defer payments of bonuses which had not been paid during the year.
- Defer non-essential advisory work.

The majority of the above are still in place. However, most staff came back from furlough in late May and June after activity levels increased. The reopening of the housing market led to an increase in demand for Milton Homes properties. Similarly, staff were required for CAML and Acorn to Oaks.

In response to UK government requirements, the Group implemented working from home measures in March for all staff, ensuring that appropriate internal controls remained in place throughout the period.

The COVID-19 situation continues to be monitored and reported on regularly by management to the Board. The directors believe the plans put in place are adequate to mitigate the risks.

Going Concern

The directors have reviewed in detail the monthly cash flow forecast for the period to 30 September 2021.

In making their going concern assessment, the directors have considered the inherent uncertainties in market conditions and the potential impact of the risks on the financial position of the Group as set out in note 2.1. The Board has already taken actions to reduce the impact of COVID-19 as noted above. An explanation of the key aspects of going concern for the Company and each of the main Group companies is set out below.

The successful capital raising exercise by the Company in 2019 has supported the development of the Group's strategy throughout the year, in particular the application process for a UK banking licence.

The subsequent submission of an application for a banking licence by Recognise in November 2019 and the receipt from the PRA in July 2020 of a TCR letter, which is a precursor to its issuing a banking authorisation with restriction (AWR), are important milestones in completing the process of Recognise being granted a UK banking licence.

The Company has provided £8.2m of funding to Recognise to date of which £1.7m is still held to support its operations.

COLG

As at the end of September 2021 the Company will have sufficient working capital to meet its requirements.

It is assumed the Company will succeed in raising enough equity to enable Recognise to meet capital and liquidity adequacy requirements set by the PRA in its TCR letter.

The key assumptions around the cash flow are that the Company will:

- receive from CAML part repayment of its loan of £2.45m; and
- receive from Milton Homes' operational cash flow part repayments of the Deep Discount Bonds held by the Company.

These receipts will enable the Company to meet its running costs.

Milton Homes

During the year the business was adversely affected by the slowdown in the housing market even before COVID-19 but did see a rise in the number of property reversions. However, the directors believe the national spread of the portfolio and the limited number of higher value properties is a positive feature of the portfolio in these circumstances, with a positive cash flow arising from these sales.

CAML

The global pandemic started to affect the business in early March and the decision was taken to stop lending to enable the Group to determine the extent of the impact on the portfolio. As a consequence, an extensive customer contact programme was undertaken to speak with all CAML's customers to understand the impact specifically on their business and how CAML could help. The results have been analysed and reviewed by CAML's management who believe CAML will be able to repay the funds provided by COLG from CAML continuing its loan book to maturity.

PFS

With the impact on residential and commercial property markets, businesses and the economy from the COVID-19 pandemic lockdown PFS has implemented a pause on new lending. Regular contact is maintained with its existing customers and there is currently no distress in the PFS loan book.

At AWR the PFS loan book will migrate to Recognise as part of the strategy to increase its capital base.

Acorn to Oaks

It is assumed Acorn to Oaks will fund the development of its business from its own resources and will not require COLG to provide working capital.

Risk factors

The main risk factors around the cash flow forecast are as follows:

- increased costs arising from a delay in Recognise receiving AWR or a full UK banking licence from the Regulator;
- the raising of sufficient equity by the Company to allow Recognise to meet required capital adequacy and liquidity levels;
- the number of reversions and property sales by Milton Homes is less than anticipated;
- the prices realised on the sale of Milton Homes properties are less than expected; and
- the repayment of the CAML loan is slower and less than expected.

Conclusion

After consideration of the above cash flow risk factors and the projected cash balances held by Group companies during the period, the directors are not aware of any material uncertainties that cast significant doubt on the Group's ability to continue as a going concern and are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the annual report and accounts.

Group viability statement

In addition to their detailed review of the monthly cash flow forecast for the period to 30 September 2021 in relation to going concern, the directors have also assessed the outlook for the Group over a longer period in line with good governance practice and reporting.

An important element of the Group's declared strategy of seeking to provide a range of financial services to the SME market in the UK is the application for a UK banking licence which has been made by its subsidiary, Recognise, to the PRA.

As part of the viability process, the directors have endorsed an updated five-year business plan as part of the on-going application process. The plan, which has been developed by Recognise with assistance from its external advisors, incorporates forecasts from all Group businesses and covers all Group activities. The plan shows how the Group, through its subsidiary Recognise, will fulfil the business plan objectives set out in the application made to the Regulator if Recognise is granted a UK banking licence, and demonstrates the viability of the Group up to March 2025.

The following matters were considered explicitly in drawing up the viability plan:

- principal risks and uncertainties faced by Group businesses, both currently and in the medium term;
- assumptions in the business plans of Group companies;
- scenarios that might affect the Group's operations and resilience, including changes in the political, regulatory and competitive environment;
- the Group's approach to risk management;
- capital and other resources required to deliver the plan at Recognise and consolidated level; and
- the Group's forecast cash flows, liquidity and funding profile over the period.

Various stress test scenarios, which represent a range of events of different severity and probability that could impact the Group were applied via the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). These enabled the Group to assess the circumstances in which regulatory capital and liquidity requirements could no longer be met by Recognise and the Group, so that their business would no longer be considered viable. The Board approved the revised ICAAP in March 2020.

The directors currently expect that, following the receipt of its TCR letter, Recognise should receive a full UK banking licence in the first half of 2021. This will provide the Group with the means to realise its strategy of providing a range of financial services to the SME market by enabling it to access stable cost-effective funding from depositors, whose deposits would be protected under the Financial Services Compensation Scheme.

By placing all the new lending operations under one entity this allows the Company to deliver its strategy. Existing loans outside Recognise will continue to maturity and alongside the repayments of bonds from Milton Homes will provide funding and liquidity for the Company.

The Board has considered the potential impact of COVID-19 on the delivery of its strategy in the context of the actions taken by the Group to mitigate its effects.

Based on the results of their assessment of the business plan, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years and are not aware of any material uncertainties that would cause them to change their expectation.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, among other matters:

- to the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standard of business conduct; and
- the need to act fairly as between members of the company.

Decision-making

An example of how the directors have had regard to the matters set out in section 172 and acted to promote the interests of the Company for the benefit of its members as a whole is given below.

In the course of considering Recognise's UK banking application, the PRA raised the matter of the capital structure of the Company which, since a capital reconstruction in October 2017, had comprised deferred shares as well as ordinary shares.

The deferred shares, which had only very limited rights, were non-transferable and effectively valueless. The Board decided to seek shareholder approval for a proposal to simplify the capital structure by buying back and cancelling the deferred shares. A circular was sent to shareholders on 8 April 2020 and approval was given at a general meeting on 27 April 2020.

Culture

The Board is committed to a culture of openness in relation to all its stakeholders, including its staff, and has put in place a number of policies, including an Anti-Bribery Policy, to ensure a healthy corporate culture.

The Group is focused on operating and developing its businesses in a customer-centric way so that the Group can maintain a reputation for fairness and high standards of business conduct. The customer contact programme undertaken by CAML (see below) is an example of such customer-centric focus.

Information on KPIs used by Group companies is included in the business reviews in the Strategic report on pages 9 to 11.

Stakeholder engagement

The Board recognises the importance of building strong relationships with stakeholders in order to help the Company deliver its strategy and promote the development of the business over the long term. The CEO and other members of the executive team report to the Board on the effectiveness of and outputs from, stakeholder engagement, so that the Board can take the views of stakeholders into account when making decisions.

The key stakeholders are considered to be shareholders, regulators (in particular the PRA and FCA), customers and employees, as well as the wider community and environment.

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

Information about induction and ongoing training and development for the directors in relation to their statutory duties and other matters where appropriate is given in the Corporate governance statement on page 22.

The importance of each stakeholder group and some ways in which the Board has engaged with the Group's stakeholders during the year are outlined below.

Shareholders

Shareholders are essential to the Company's ability to access capital to support its strategic objectives and ensure the long-term success of the business.

The Board maintains an open dialogue with its two major shareholders, each of which has appointed a director to the Board under the terms of their Relationship Agreement with the Company. Through the Chief Executive Officer and other executives, the Board has also maintained a dialogue with both existing and potential shareholders throughout the year in the context of the delivery of the Company's strategy and the requirement to increase the Group's capital base in the future.

Strategic report / Section 172 statement / continued

The Company also communicates with its shareholders in the following ways through:

- annual and half-yearly reports;
- regulatory announcements;
- its website; and
- Annual General Meeting.

Regulators

The Company only operates with the support and approval of its regulators.

The Board maintained COLG's support (both financial and otherwise) for the application for a UK banking licence by its subsidiary, Recognise. It received reports on progress with the application and on the continuing interaction and dialogue with the PRA from the executive team. Where matters relating to the Group as a whole were raised by the PRA, the Board considered these and responded to them appropriately.

Recognise will be operating under the Senior Managers and Certification Regime.

Customers

Customers are essential to the Group's ability to generate revenue.

The Board is aware that many customers of CAML and PFL have been adversely impacted by the effect of COVID-19 on their businesses. It supported an extensive customer contact programme undertaken by CAML and PFL in March 2020 which offered moratoriums and other changes in repayment arrangements to customers where required. A second phase of the customer contact programme has been put in place since the year end, which is consistent with the Group's focus on its customers.

Employees

The Group's employees are essential to the Group's ability to operate.

The Group has in place bonus schemes for its employees as well as LTIP plans for more senior staff. There is currently work ongoing to harmonise the benefits for group employees and development and training plans are being implemented. These will be actively reviewed on a regular basis.

Environment

The Company recognises climate change as a serious global issue with significant implications for the business, its customers, employees, suppliers and partners.

The Group is finalising an Environmental and Sustainability Policy which will set out its approach to environmental, social and governance (ESG) and sustainability matters impacting its business as well as how the Group impacts the wider environment and communities in which it operates. The focus will be on managing climate-related financial risks as well as extending to how as a business the Group will operate and how it may promote positive environmental and sustainability activity.

Preparation of Strategic report

This Strategic report has been prepared to allow shareholders to assess the Group's strategy and the potential for that strategy to succeed. The Strategic report contains certain forward-looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties underlying such forward-looking statements.

Signed on behalf of the Board

Michael Goldstein
Chief Executive Officer

17 August 2020

GOVERNANCE

Board of Directors

Colin Wagman

(Non-executive Chairman)
(non-independent)

Appointment
5 October 2017

Responsibilities & Experience

Colin was admitted as a member of the Institute of Chartered Accountants in England and Wales in 1970. He practiced as a specialist in business structuring and tax planning and became a senior partner of his central London practice in the 1980s. From 1998 until March 2018 he was Deputy Chairman and Chief Financial Officer of Delancey which is the principal adviser to the Delancey property funds which held several billion pounds of property investments and developments in the UK. Colin is also a non-executive director of Alpha Plus Group Plc, as well as being a trustee of several charities.

Michael Goldstein

Chief Executive Officer

Appointment
5 October 2017

Responsibilities & Experience

Michael was admitted as a member of the Institute of Chartered Accountants in England and Wales in 1984. He practiced as an audit partner with particular emphasis on the Real Estate sector. He was a Senior Audit partner in BDO LLP where he was responsible for the management of the national audit business. Since leaving BDO in 2015, he has led the restructuring of a large family property business. Michael led the reversal of Milton Homes into the City of London Group and was responsible for the recruitment of the team seeking a banking licence in Recognise. He sits on the Board of Recognise on behalf of the Group, as well as being a trustee of several charities.

Paul Milner

(Non-independent
Non-executive Director)

Appointment
November 2013

Responsibilities & Experience

Chairman between October 2015 and October 2017. He served as an Executive Director from October 2017 until April 2020 when he became a Non-executive director again. Since July 2013 he has been Chief Executive of a privately-owned group of property companies. Paul qualified as a solicitor in 1986 but has spent most of his career in the property, construction and private finance industries. In recent years he has played key roles on raising senior debt and equity finance for infrastructure projects. From 2005 to 2012 he worked in central government leading a commercial team tasked with delivery of infrastructure programmes and projects. From 2012 to June 2013 he worked at UPP Group Ltd where he played a key role in the successful bond refinancing of a number of student accommodation projects.

Board of Directors / continued

Lorraine Young
Independent Non-executive Director

Appointment
10 August 2017

Responsibilities & Experience

Lorraine runs a board advisory practice and is also a non-executive director of PHSC plc, an AIM listed company, for which she chairs the audit committee. Lorraine is a Past President and Fellow of the Chartered Governance Institute. She has held senior governance roles at a number of blue-chip companies, including Standard Chartered plc and Brambles Industries plc. She ran her own company secretarial and corporate governance advisory practice for 13 years, which in 2016 she merged with the company secretarial team at Shakespeare Martineau, where she was a partner. She left the firm in February 2019 to pursue her own consultancy interests once more. Lorraine has recently been appointed to the Court and as Honorary Treasurer of the Worshipful Company of Chartered Secretaries and Administrators, one of the modern livery companies.

Andy Crossley
Independent Non-executive Director

Appointment
19 October 2015

Responsibilities & Experience

Andy spent twenty-four years, principally at Invesco Perpetual, as a UK small cap fund manager. He was a director of Corporate Broking at Shore Capital, a leading UK small cap broker. Shore Capital acquired Stockdale Securities in Q1 2019, where Andy was Managing Director from 2015 to 2019. Prior to Stockdale, Andy spent four years at Peel Hunt LLP where he was Head of Corporate Sales and subsequently Head of ECM/Syndicate. Andy sits on the LSE AIM Advisory Group and he also chairs the QCA Primary Markets Expert Group. Andy brings a wealth of corporate governance and capital markets expertise to the Group.

Lorna Brown
(Non-independent Non-executive Director)

Appointment
15 May 2020

Responsibilities & Experience

Lorna qualified as a Chartered Surveyor in 2000 and is a Fellow of the Royal Institution of Chartered Surveyors and has spent her career focused on real estate investments in debt and equity through various market cycles. Lorna is currently employed as Director of Capital Markets at Delancey Real Estate Asset Management, the principal adviser to the Delancey property funds which own and invest in UK real estate. Prior to Delancey, she held roles as Head of Real Estate Debt at Legal & General, Managing Director at Blackstone Real Estate and Managing Director at RBS. Lorna is also a non-executive director of the trade association for the commercial real estate (CRE) finance industry in Europe. Lorna resigned as a director on 18 August 2020.

Corporate governance statement

INTRODUCTION

The directors recognise the importance of sound corporate governance taking into account the Company's size and stage of development. The Board of Directors has formally adopted the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council ("FRC") and believes that the Code provides a suitable benchmark for the Company's corporate governance framework. A copy of the Code is available from the Financial Reporting Council's website https://www.frc.org.uk/

In this report, we are reporting for the first time against the 2018 version of the Code, which applies to financial years beginning on or after 1 January 2019. The Company's corporate governance arrangements have been reviewed and updated as necessary. The Company's Corporate Governance Statement of Compliance, which outlines how the Company has applied the relevant principles of the Code and complied with its provisions, including changes arising from adopting the 2018 version of the Code, is available on the Company's website.

ROLE OF THE BOARD

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

- setting the Company's strategy;
- approving any major changes to the Group's structure or share capital;
- approving the annual report and accounts and shareholder communications;
- ensuring a sound system of internal controls and risk management;
- approving major contracts;
- determining the remuneration policy (on the recommendation of the remuneration committee); and
- making appointments to the Board and other offices.

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

The Strategic Report contains a Section 172 statement which summarises the Board's engagement with the Company's main stakeholders and the ways in which these have been taken into account in the Board's decision-making.

THE ROLE OF THE CHAIR AND THE CHIEF EXECUTIVE OFFICER

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

The Chair is responsible for setting the board's agenda and ensuring that adequate time is available for discussion of all agenda items. The Chair promotes a culture of openness and debate by facilitating the effective contribution of non-executive directors in particular, and ensuring constructive relations between executive and non-executive directors.

Although the Chair is not deemed independent within the definition of the Code, the Board believes that he remains independent in character, mindset and judgement.

The Chief Executive Officer is responsible for managing the day-to-day operations and the implementation of the strategy of the Company.

THE BOARD

The Board currently comprises six directors: the non-executive and non-independent Chair, one executive director and four non-executive directors, two of whom are independent. Biographical details of directors together with details of their significant commitments are set out on pages 21 and 22 of this report.

THE DIRECTORS

The directors possess a wide range of skills, knowledge and experience relevant to the leadership of the Company, including financial, legal, regulatory and industry experience as well as the ability to provide constructive challenge to the views and actions of executive management in meeting agreed goals and objectives.

Corporate governance statement / continued

BOARD PROCEDURES

Board meetings are an important way in which the directors discharge their duties, particularly under s172 of the Companies Act 2006. The Board meets at least six times each year with additional meetings scheduled when required.

At each meeting, the Board receives regular business updates from across the Group as well as financial, strategic, performance, investor relations and governance updates.

Following each committee meeting, the Chairs of the audit, remuneration and nomination committees provide updates to the Board on the key issues and topics discussed, as well as any matters for escalation or the Board's approval.

Ahead of each board and committee meeting, agendas are agreed in advance by the Chair, CEO and company secretary, and papers are circulated by the company secretary to provide Board members with sufficient time to consider the matters to be discussed.

Following the outbreak of COVID-19, the Board held a number of additional meetings to discuss the impact on the Group and put mitigating actions in place. The Board continues to assess the impact of the situation as it evolves.

There is an agreed procedure for directors to take independent professional advice if necessary, at the Company's expense. This is in addition to them having access to advice from the company secretary.

CONFLICTS OF INTEREST

Directors' declarations of interest is a regular Board agenda item. A register of directors' interests (including any actual or potential conflicts of interest) is maintained and reviewed regularly to ensure all details are kept up to date. Authorisation is sought prior to a director taking on a new appointment or if any new conflicts or potential conflicts arise.

BOARD EVALUATION

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

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

The results of the evaluation revealed no significant concerns amongst the directors with regard to the composition, operation and effectiveness of the Board or its committees. However, there were some areas identified to further improve the effectiveness of the Board such as succession planning. Actions to address these have been taken and plans will be further developed in the current year.

The Board recognises the importance of succession planning to refresh the Board and notes the Code provisions relating to this. The nomination committee has considered succession for the board and the senior management team within the group. It is envisaged that should a Board member or member of the senior management team be unable to fulfil their duties for a period of time, one of the other directors or senior managers with the most appropriate experience would step in to perform the role on an interim basis until a longer-term solution was identified.

The Board has yet to put in place a longer-term succession plan for the Board and senior executives, as the Group is in a period of transition. Once the transition has been completed, a wider review of the Company's governance structure and succession plan will be implemented.

The Board does not consider it necessary at present to use an external third party to conduct the evaluation process but will keep this under review as the Company grows.

APPOINTMENT, TENURE AND RE-ELECTION

The Board may appoint a director as it thinks fit. The appointment of any new director is made on the basis of assessing the candidate's merits and measuring his or her skills and experience against the criteria for the role.

Whilst the Company has no specific diversity policy in place, the Company acknowledges the benefits of greater diversity, including gender diversity, and remains committed to ensuring that the Company's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. The Board will always look to appoint the best candidate for the role advertised and will not discriminate on any grounds including gender, race, ethnicity, religion, sexual orientation, age or physical ability.

Corporate governance statement / continued

Following the appointment of Lorna Brown on 14 May 2020, the Board has five non-executive directors and one executive director. Lorna Brown and Paul Milner are appointed under the terms of the Relationship Agreements with the Company's two major shareholders, DV4 Limited and Max Barney Investments Limited, and are therefore not considered as independent within the definition of the UK Corporate Governance Code. The Board has considered and reviewed the effectiveness of each non-executive director, taking into account the results of the Board evaluation and any factors that may affect, or could appear to affect, a director's judgement and independence. The Board confirms that each of the non-executive directors continues to demonstrate the necessary commitment and to be a fully effective member of the Board.

The Company considers the annual re-election of directors to be good corporate governance and has therefore chosen to follow this practice. As such, all directors will retire and stand for re-election at the AGM. On the basis of the effectiveness review of the Board and individual directors, noted above, the Board endorses the re-election of all directors.

The non-executive directors serve on the basis of letters of appointment, which are available for inspection at each annual general meeting and at the Company's registered office. Further details on their terms of appointment can be found on page 29 of this report.

AUDIT AND RISK COMMITTEE REPORT

The committee was chaired by Andrew Crossley throughout the year and its other members were Colin Wagman and Lorraine Young. Andrew Crossley has recent and relevant financial experience and the committee as a whole has competence in the sector in which the Company operates.

Other individuals, including the other directors and representatives from the finance function are invited by the committee to attend meetings from time to time.

FINANCIAL RESULTS

The committee reviewed the full and half year financial results before they were considered by the Board for release to the market, including the going concern and viability statements and the information to support them. The committee is responsible for considering and reporting on any significant issues that arise in relation to the audit of the financial statements and considered the following significant issues that it had identified with the auditors:

- Recognition of revenue (gains on the revaluation/disposal of interests in properties and interest income), where there is a risk that revenue may be overstated. Testing confirmed income had been recognised in the correct accounting period.
- Valuation of the reversionary interests in the investment properties and equity release plan financial assets (affecting both revenue recognition and carrying value in the balance sheet) which involves a large degree of judgement and estimation. Testing confirmed that the methodology and estimates adopted were reasonable and consistent with previous practice.
- Provision for impairment on loans and finance leases in accordance with IFRS 9, which requires the impact of future events on expected credit losses to be assessed in determining the provision for impairment. The uncertainties introduced by COVID-19 have increased both the level of judgement required and the inherent subjectivities.
- Impairment of carrying value in subsidiaries, including equity and loans provided, which would reduce the net asset value of the Company and Group. The review of future projections and cash flow forecasts concluded that no further provisions were required in addition to those already included in the financial statements.
- Going concern, having regard to the assumptions made by Group companies in preparing detailed cash flow forecasts on both "most likely" and "worst case" scenarios for the period to 30 September 2021, and the main risk factors that apply, including those flowing from COVID-19. The auditors confirmed they had reviewed the cash flow forecast and supporting information and were content that the directors had concluded that the going concern basis could be adopted in the financial statements.

The above risks were discussed with the auditors at the audit and risk committee.

EXTERNAL AUDITORS

The committee considered the scope and findings of the external audit as well as the independence and objectivity of the external auditors. The committee has agreed the policy for the provision of non-audit services by the auditors. The committee does not regard the non-audit fees, compared to the audit fees, as being at a level that could influence the auditors' objectivity. The split between audit and non-audit fees for the year under review appears in note 6 on page 61.

Corporate governance statement / continued

The audit and risk committee normally meets with the external auditors without management being present, at least once a year at the time of the approval of the full year results.

BDO LLP has been the external auditor for the Company since 2013. Following a retender in 2018, the committee agreed that it was in the best interests of the Company for BDO to continue as auditors of the Company and the new enlarged group. The appointment of BDO LLP is reviewed by the Committee each year, taking into account relevant legislation, guidance and best practice. In June 2020, the Committee considered the performance of the external auditor and the effectiveness of the audit process by discussing the results of the 2020 external audit, including their views on material accounting issues and key judgements and estimates; considering the robustness of the audit process; reviewing the quality of the people and service provided by BDO LLP and assessing their independence and objectivity. The Committee was satisfied with the effectiveness of the external auditor.

INTERNAL AUDIT

The audit and risk committee, having reviewed the need for internal audit, agreed that it was not appropriate for a business of the Company's size to have an internal audit function at the present time. The Group will have suitable internal audit arrangements in place at the date it receives a UK banking licence.

BOARD REVIEW OF INTERNAL CONTROLS AND RISK MANAGEMENT

There is an ongoing process, which is kept under regular review by the Board, for identifying, evaluating and managing, rather than eliminating, the significant risks faced by the Group. The Board believes that the Group's system of internal controls outlined below continues to be sufficient for the business.

The directors acknowledge their responsibility for the Group's system of internal and financial controls, including suitable monitoring procedures, in order to provide reasonable, but not absolute, assurance of the maintenance of proper accounting records and the reliability of the financial information used within the business. The Board has reviewed the effectiveness of the system of internal controls which operated during the period covered by this directors' report and accounts.

The key controls are:

- Clearly defined organisational responsibilities and limits of authority.
- Established procedures for authorisation of capital expenditure and investment of cash resources.
- Production of monthly management accounts which are compared to budget together with a review of detailed KPIs and explanation of key variances.
- Both the COLG executive director and COLG executives participate in regular management meetings of subsidiaries and review their monthly management accounts.
- Regular audit reports commissioned by third party lenders to CAML.
- Monthly bank and key control account reconciliations.
- Payment authorisation controls.
- The maintenance of detailed risk registers which includes analysis of all the key risks facing the Group, including emerging risks. These are reviewed and assessed by both the audit and risk committee and the full Board.
- The monitoring and control of credit risks by a central credit committee that sets loan sanctioning limits for the Group's lending businesses.

The respective responsibilities of the directors and the auditors in connection with the financial statements are explained on pages 88 and 95. The directors' statement on going concern is on page 15.

The Section 172 statement is on page 17 and 18.

The directors confirm that they consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

REMUNERATION COMMITTEE

The role, composition and activities of the remuneration committee and details of how the Company applies the principles of the Code in respect of directors' remuneration are set out in the Directors' Remuneration report on pages 27 to 29.

No director is involved in discussions or decisions on their own remuneration.

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Corporate governance statement / continued

The remuneration of the non-executive directors is determined by the Board. Details of directors' remuneration appear in the Directors' Remuneration report.

NOMINATION COMMITTEE

The nominations committee comprises Colin Wagman (Chair), Andy Crossley, Michael Goldstein and Lorraine Young. Other non-executive directors are invited to attend meetings of the committee.

The role of the Nomination committee is to:

- review the structure, size and composition of the Board and its committees, ensuring there is a balance of skills, experience and knowledge;
- conduct the evaluation of the performance of the Board and committees as well as that of individual directors;
- manage the process for the appointment of new directors to the Board; and
- monitor succession planning for both the Board and management, taking into account the challenges and opportunities facing the Company and the skill and expertise likely to be needed in future.

The committee met once following the Company's financial year end to discuss the succession planning for the Board and senior management across the Group.

ATTENDANCE AT MEETINGS

Directors' attendance at Board and committee meetings during the year is summarised in the table below.

	Board		Audit & risk committee		Remuneration committee		Nomination committee	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
A J Crossley	10	10	3	3	4	4	1	1
M H Goldstein	10	10	–	–	–	–	–	1
P G Milner	10	10	–	–	–	–	–	–
C B Wagman	10	10	3	3	4	4	1	1
L E Young	10	10	3	3	4	4	1	1

Lorna Brown was appointed to the Board on 14 May 2020.

AGM

The Company endeavours to send the notice of AGM and supporting papers to shareholders at least 20 working days before the meeting and responds promptly to any enquiries received from shareholders.

Ben Harber

Company Secretary

17 August 2020

Directors' Remuneration report

ANNUAL REPORT ON REMUNERATION

Remuneration committee

The committee members are Colin Wagman, who chairs the committee, Andrew Crossley and Lorraine Young. The remuneration committee is formally constituted with written terms of reference which set out its full remit. A copy of the terms of reference is available on the Company's website www.cityoflondongroup.com.

The remuneration committee is responsible for developing the policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors.

The remuneration committee is involved in setting pay only for the executive directors and senior managers of the Company. However, it is aware of pay and conditions for other staff in the Company and for the senior managers in other Group companies when making these decisions.

Responsibility for the remuneration policy of subsidiaries is devolved to the boards of those companies.

The remuneration committee met four times during the year.

The committee consulted Deloitte LLP during the year regarding share-based remuneration for the Group.

M Goldstein and P Milner, who were executive directors during the year, were on part time contracts. With effect from 1 April 2020, P Milner became a non-executive director while M Goldstein moved to a full-time contract.

M Goldstein's salary increased from £175,000 to £240,000 on 1 September 2019 in recognition of the increasing time commitment required from him as CEO. He received a further increase to £350,000 from 1 April 2020 when he became a full-time CEO. A bonus of £145,000 was paid to M Goldstein in December 2019 to reflect the achievement of significant milestones towards obtaining a banking licence for Recognise Financial Services Limited, and the successful fundraise undertaken by the Company in 2019.

REMUNERATION OF EXECUTIVE DIRECTORS

Elements of remuneration

During the year, the total remuneration of the executive directors comprised a base salary and, for M Goldstein, a bonus payment. In addition, the executive directors hold share options which were awarded under the Share Option Plan 2017 in 2017 and 2018.

Base salary

When determining the salary of the executive directors, the remuneration committee takes into consideration the levels of base salary for similar positions with comparable status, responsibility and skills in organisations of broadly similar size and complexity.

SHARE OPTION SCHEMES

Fixed price options

Details of the share options held and awards are given in the table on page 29.

Directors' Remuneration report / continued

Total remuneration for each director

Directors' remuneration for years ended 31 March 2020 and 2019.

Executive directors

For the year ended 31 March 2020	Salary £	Bonus £	All taxable benefits £	Total £
Michael Goldstein	212,917	145,000	–	357,917
Paul Milner	100,000	–	–	100,000

For the year ended 31 March 2019	£		£	£
Michael Goldstein	175,000	–	–	175,000
Paul Milner	100,000	–	–	100,000
Chris Rumsey (a)	101,732	–	–	101,732

(a) Remuneration for the period to the date of his resignation from the board of the Company on 13 September 2018. Mr Rumsey was the managing director of the Milton Homes Group which met his remuneration costs until his retirement in May 2019.

Non-executive directors

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Colin Wagman (a)	35,833	30,000
Andrew Crossley (b)	31,875	27,500
Lorraine Young	31,875	27,500

(a) Chairman.

(b) During the year to 31 March 2019, the remuneration for A Crossley was paid to Stockdale Securities Ltd.

STATEMENT OF DIRECTORS' SHARE INTERESTS

The directors' interests in the ordinary share capital of the Company are set out below. There is no requirement for the directors to hold shares in the Company.

	At 31 March 2020	At 31 March 2019
Andrew Crossley	–	–
Michael Goldstein	–	–
Paul Milner	16,238	16,238
Colin Wagman	250,000	250,000
Lorraine Young	–	–

Directors' Remuneration report / continued

SHARES HELD BY EBT

21,349 shares were held by the Employee Benefit Trust at 31 March 2020 and 31 March 2019. Subsequent to the year-end the Trustees of the Employee Benefit Trust subscribed for an additional 500 shares at 114.4p each for cash.

SHARE OPTIONS

The directors' interests in fixed price share options were as follows:

	Date of grant	At 31/03/19	At 31/03/20	Exercisable from	Exercisable to	Exercise price
M Goldstein	05/10/17	555,556	555,556	05/10/2020	05/10/2027	90.00p
	31/07/18	344,828	344,828	31/07/2021	31/07/2028	145.00p
P Milner	05/10/17	333,333	333,333	05/10/2020	05/10/2027	90.00p
	31/07/18	137,931	137,931	31/07/2021	31/07/2028	145.00p
		1,371,648	1,371,648			

SERVICE CONTRACTS

Details of executive directors' service contracts are shown below.

Director	Date of contract	Unexpired term	Notice period	Compensation payable on early termination
Michael Goldstein	14 September 2017	6 months rolling	6 months	Contractual

The non-executive directors have letters of appointment, details of which are shown below.

Director	Date of letter of appointment	Unexpired term	Notice period	Compensation payable on early termination
Andrew Crossley	13 September 2018	15 months	1 month	None
Colin Wagman	14 September 2017	1 month	1 month	None
Lorraine Young	10 August 2020	36 months	1 month	None

As at the date of this report, letters of appointment for Lorna Brown and Paul Milner are in course of preparation and will be put in place shortly.

The Directors' Remuneration report has been approved by the Board of Directors and signed on its behalf by

Colin Wagman

Chairman of Remuneration committee

17 August 2020

Directors' report

This is the Directors' report for the year to 31 March 2020.

RESULTS AND DIVIDENDS

The results for the Group are set out on page 35.
No dividends were declared during the year (2019: nil).

EVENTS SINCE THE YEAR END

information on post balance sheet events is set out in note 35.

FUTURE DEVELOPMENTS IN THE BUSINESS

Information on future developments is included in the Strategic report.

FINANCIAL RISK

Financial risk management objectives and policies and relevant risk disclosures are set out in note 33.

PRINCIPAL ACTIVITY

The Company is the parent company of a group which, during the year, operated three businesses, the first focused on providing finance to the SME sector, the second operating as a financial services intermediary focusing on the SME market and the third administering a portfolio of home reversion plans in the UK residential property market. If, as anticipated, the Company's subsidiary, Recognise Financial Services Limited, meets the conditions set by the PRA and is granted a UK banking licence, the Group intends to focus its future activities on providing banking and associated financial services to serve the UK SME market. The Board believes there are particular opportunities in these sectors.

DIRECTORS AND THEIR INTERESTS

Details of directors who served during the year are as follows:

A J Crossley

M H Goldstein

P G Milner

C B Wagman

L E Young

L Brown was appointed as a non-executive director on 14 May 2020.

Biographical details of the directors are given on pages 20 and 21.

Directors' interests in the shares of the Company are shown in the Directors' Remuneration report on page 28.

SHARE CAPITAL

Details of the share capital of the Company in issue during the financial year and changes to it can be found in note 26.

Since the year end, a further 1,434,065 shares have been issued:

- 500 shares at £1.144 each in cash issued to the Trustees of the Employee Benefit Trust to facilitate the buy back and cancellation of the Deferred shares in April 2020.
- 1,433,565 shares at £1.43 each to Loan Note Holders on the mandatory conversion of the 6% Convertible Unsecured Loan Stock 2021 following receipt of the TCR letter from the PRA.

Directors' report / continued

MAJOR INTERESTS IN ORDINARY SHARES

Notifications of the following interests in the Company's ordinary share capital carrying voting rights have been received by the Company under the FCA's Disclosure and Transparency Rules:

	Number of ordinary shares at 17 August 2020	%
DV4 Limited	18,666,667	46.9
Max Barney Investments Limited	12,829,815	32.2

The Company has Relationship Agreements with DV4 Limited, and Max Barney Investments Limited and Harvey Bard, in respect of themselves and certain other people who are considered to comprise a concert party. Under the terms of the Relationship Agreements, each has undertaken that, subject to certain exceptions, it will conduct all business with the Company on arm's length terms and on a normal commercial basis. Under the Relationship Agreements, each has the right to appoint a director to the Board while it continues to hold more than 25% of the issued share capital.

DIRECTORS' INDEMNITIES AND INSURANCE

The Group has directors' and officers' liability insurance in place.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The statement of directors' responsibilities is set out on page 88 of this annual report.

SECTION 172 STATEMENT

The Section 172 statement is set out on pages 17 and 18 of this annual report.

FINANCIAL INSTRUMENTS

Details of the financial instruments to which the Group is a party are included in note 32 to the financial statements.

AUDIT INFORMATION

In accordance with section 418 Companies Act 2006, each of the directors confirms that:

(i) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and

(ii) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

AUDITORS

BDO LLP have indicated their willingness to continue in office and a resolution proposing their reappointment as auditors will be put to members at the annual general meeting to be held on 30 September 2020.

ANNUAL GENERAL MEETING

This year's annual general meeting will be held at 3.30 pm on 30 September 2020 at the office of the Company at The Royal Exchange, First Floor, 1 Royal Exchange Steps, London EC3V 3DG.

In light of the UK Government's social distancing guidelines associated with the COVID-19 pandemic restricting public gatherings, physical attendance at the Company's AGM will not be permitted. The AGM will be held with a quorum of members only present at the physical location, supplemented by way of a videoconference allowing shareholders to dial into the AGM at which time they can submit questions to the Board. Shareholders wishing to access the videoconferencing facility or submit questions to the Board ahead of the meeting are asked to contact the Company Secretary (Ben.Harber@shma.co.uk). Please note that it will not be possible to vote on the matters to be considered at the AGM through the videoconferencing facility. Shareholders are encouraged to appoint the Chair as their proxy with their voting instructions.

Directors' report / continued

EXPLANATION OF BUSINESS

The following is an explanation of the business to be considered at the annual general meeting.

Resolution 1 – report and accounts – Company law requires the directors to present the Company's annual report and accounts to the shareholders in respect of each financial year.

Resolutions 2 to 6 – re-election of directors – Under the recommended best practice set out in the UK Corporate Governance Code, all the directors should retire and submit themselves for re-election at each AGM. The directors have decided to follow this best practice guidance and therefore they are all standing for re-election. Following the internal Board evaluation process concluded in June 2020, the Board is satisfied that each of the Directors continues to be effective; demonstrates a commitment to the role; and continues to be able to dedicate sufficient time to their duties. The Directors believe that the Board continues to include an appropriate balance of skills and provides effective leadership for the Company. The Board has a variety of skills relevant to the market in which the Company operates, including significant financial, legal and governance expertise.

Resolution 7 – reappointment of auditors and determination of their fees – Company law requires shareholders to reappoint the auditors each year. The audit and risk committee has reviewed the effectiveness, independence and objectivity of the external auditors and, on behalf of the Board of directors, recommends the external auditors' reappointment. The resolution also authorises the directors to determine the auditors' remuneration in accordance with normal practice.

Resolution 8 – authority to allot shares – This ordinary resolution seeks shareholder' authority for the directors under section 551 of the Companies Act 2006 ("the Act") to allot unissued shares and to grant rights to subscribe for, or to convert any security into, shares in the Company. This authority will, if granted, expire, unless previously revoked, renewed or varied, at the conclusion of next year's AGM, or, if earlier, on 30 September 2021, although offers or agreements can be made before the expiry of that period, which might require shares to be allotted or rights granted after the expiry of that period. This authority, if approved, will be limited to a maximum nominal amount of £1,000,000, representing a maximum of 50,000,000 ordinary shares of 2 pence each, equivalent to approximately 120% of the issued capital of the Company as at 17 August 2020 being the date of approval of the financial statements. As stated in the Chairman's statement, the directors believe that they should have the authority proposed in the resolution to enable the Company to raise sufficient new equity to finance the business opportunities if a banking licence is obtained.

Resolution 9 – disapplication of pre-emption rights for the issue of new shares – If the directors wish to allot new shares and other equity securities for cash, the Act requires that any such shares are offered first to existing shareholders in proportion to their holdings. This is known as shareholders' pre-emption rights. There may be occasions, however, when the directors need the flexibility to finance business opportunities as they arise without offering securities on a pre-emptive basis. The Act allows a limited disapplication of these pre-emption rights in certain circumstances. Therefore, this resolution, which will be proposed as a special resolution, authorises the directors to issue, for cash, up to a total nominal amount of £1,000,000 in ordinary shares (that is 50,000,000 ordinary shares of 2 pence each), equivalent to approximately 120% of the issued share capital of the Company (as at 17 August 2020), without the shares first being offered to existing shareholders. This resolution will be proposed subject to resolution 8 (referred to above) first being carried at the meeting and the authority sought, if granted, will be for the same period as that granted under resolution 8.

Resolution 10 – authority for the Company to make market purchases of its own shares – The Act permits market purchases of shares subject to certain defined limits and there being distributable profits available for the purchase. Shareholder approval is required before such purchases can be made. This special resolution provides the required authority. This resolution is seeking to authorise the Company to make market purchases of its own shares up to a maximum amount of 4,139,461 ordinary shares. This represents 10% of the Company's issued capital at 17 August 2020.

The maximum price paid per share shall be equal to 5% above the average market values of the shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the share is purchased. The minimum price paid shall be the nominal value per share. The directors will only use this authority to purchase shares after careful deliberation, taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. The directors will also take into account the effects on earnings per share and the benefit for shareholders generally. Any shares bought by the Company under this authority will either be held in treasury, with a view to possible re-issue at a future date, or cancelled. The directors will decide at the time of purchase whether to cancel shares immediately or to hold them in treasury. In relation to treasury shares, the Board would also have regard to any investor guidelines in relation to the purchase of shares intended to be held in treasury or in relation to their holding or resale which may be in force at the time. This authority will expire, unless previously revoked, renewed or varied, at the conclusion of next year's AGM or on 30 September 2021, whichever is earlier.

By order of the Board

Ben Harber

Company Secretary

17 August 2020

FINANCIAL STATEMENTS

Consolidated income statement

for the year ended 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Revenue	4	7,055	7,510
Cost of sales	4	(313)	(14)
Gross profit		6,742	7,496
Administrative expenses:	6		
Banking licence application (a)		(3,351)	(1,643)
Acquisition		–	(95)
Provisions for bad and doubtful debts		(1,571)	(282)
Other		(6,827)	(4,200)
Other income	7	181	234
(Loss)/profit from operations		(4,826)	1,510
Finance expense	9	(4,834)	(4,999)
Loss before tax		(9,660)	(3,489)
Tax expense	10	(70)	(77)
Loss for the year		(9,730)	(3,566)
Loss for year before costs associated with banking licence application (b)		(6,379)	(1,828)
Costs associated with banking licence application (b)		(3,351)	(1,738)
Loss for the year		(9,730)	(3,566)
Loss for the year attributable to:			
Owners of the parent		(9,742)	(3,579)
Non-controlling interests		12	13
Loss for the year		(9,730)	(3,566)
Basic and diluted earnings per share attributable to owners of the parent	12	(24.46)p	(12.21)p

(a) The banking licence application costs are disclosed separately as the award of a banking licence is fundamental to implementation of the Group's medium- and long-term strategy.

(b) 2019 includes costs associated with an acquisition.

The Group had no discontinued operations in either 2020 or 2019.

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Total loss for the year	(9,730)	(3,566)
Other comprehensive expense		
Item that will not be reclassified to profit or loss		
Valuation loss on fair value of legal case investments	(130)	–
Other comprehensive expense	(130)	–
Total other comprehensive expense	(130)	–
Total comprehensive expense	(9,860)	(3,566)
Total comprehensive expense attributable to:		
Owners of the parent	(9,872)	(3,579)
Non-controlling interests	12	13
	(9.860)	(3,566)

Consolidated statement of changes in equity

	Attributable to owners of the parent company					Attributable to non-controlling interests £'000	Total equity £'000
	Equity instrument £'000	Accumulated losses £'000	Share premium £'000	Share capital £'000	Total £'000		
At 31 March 2018							
As originally presented	–	(18,136)	37,720	4,233	23,817	(50)	23,767
IFRS 9 adjustment to opening provision for impairment	–	24	–	–	24	–	24
Restated total equity at 31 March 2018	–	(18,112)	37,720	4,233	23,841	(50)	23,791
Loss for the year – continuing operations	–	(3,579)	–	–	(3,579)	13	(3,566)
Total comprehensive income	–	(3,579)	–	–	(3,579)	13	(3,566)
Contributions by and distributions to owners							
Rollover Loan Notes 2021	1,293	–	–	–	1,293	–	1,293
Share-based payments	–	67	–	–	67	–	67
Reduction in non-controlling interests	–	(48)	–	–	(48)	50	2
Acquisition of minority interest	–	–	–	–	–	–	–
Issue of shares	–	–	12,384	203	12,587	–	12,587
Total contributions by and distributions to owners	1,293	19	12,384	203	13,899	50	13,949
At 31 March 2019	1,293	(21,672)	50,104	4,436	34,161	13	34,174
Loss for the year – continuing operations	–	(9,742)	–	–	(9,742)	12	(9,730)
Other comprehensive expense							
Valuation loss on fair value of legal case investments (note 19)		(130)	–	–	(130)	–	(130)
Total comprehensive income	–	(9,872)	–	–	(9,872)	12	(9,860)
Contributions by and distributions to owners							
Share-based payments	–	133	–	–	133	–	133
Distributions to non-controlling interests (note 27)	–	–	-	–	–	(25)	(25)
Acquisition of minority interest (note 27)	–	(63)	–	–	(63)	–	(63)
Issue of shares	–	–	695	12	707	–	707
Total contributions by and distributions to owners	–	70	695	12	777	(25)	752
At 31 March 2020	1,293	(31,474)	50,799	4,448	25,066	–	25,066

Company statement of changes in equity

	Equity Instrument £'000	Accumulated losses £'000	Share premium £'000	Share capital £'000	Total £'000
At 31 March 2018	-	(18,083)	37,720	4,233	23,870
Loss for the year	-	(342)	–	–	(342)
Total expense for the year	-	(342)	–	–	(342)
Rollover Loan Notes 2021	1,293	–	–	–	1,293
Share-based payments	-	67	–	–	67
Issue of shares	-	–	12,384	203	12,587
Total contributions by and distributions to owners	1,293	67	12,384	203	13,947
At 31 March 2019	1,293	(18,358)	50,104	4,436	37,475
Loss for the year	–	(6,902)	–	–	(6,902)
Other comprehensive expense					
Valuation loss on fair value of legal case investments (note 19)	–	(130)	–	–	(130)
Total expense for the year	–	(7,032)	–	–	(7,032)
Share-based payments	–	133	–	–	133
Issue of shares	–	-	695	12	707
Total contributions by and distributions to owners	–	133	695	12	840
At 31 March 2020	1,293	(25,257)	50,799	4,448	31,283

Consolidated balance sheet

as at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Assets			
Non-current assets			
Investment properties	13	38,609	41,040
Financial assets – equity release plans	14	30,343	30,485
Intangible assets	15	2,526	3,480
Property, plant and equipment	16	96	73
Right-of-use assets	17	650	–
Other investments	19	–	138
Loans	20	3,593	3,967
Finance leases	20	1,600	2,294
Total non-current assets		77,417	81,477
Current assets			
Loans	20	11,728	10,645
Finance leases	20	1,087	1,807
Trade and other receivables	21	3,001	2,474
Cash and cash equivalents	22	7,219	15,760
Total current assets		23,035	30,686
Total assets		100,452	112,163
Current liabilities			
Borrowings	23	(7,208)	(7,945)
Trade and other payables	23	(3,881)	(2,711)
Lease liabilities	17	(298)	–
Total current liabilities		(11,387)	(10,656)
Non-current liabilities			
Borrowings	24	(62,615)	(66,106)
Other creditors	24	(149)	(483)
Lease liabilities	17	(426)	–
Deferred tax liability	25	(809)	(744)
Total non-current liabilities		(63,999)	(67,333)
Total liabilities		(75,386)	(77,989)
Net assets		25,066	34,174
Equity			
Share capital	26	4,448	4,436
Share premium		50,799	50,104
Equity instrument		1,293	1,293
Accumulated losses		(31,474)	(21,672)
Equity attributable to owners of the parent		25,066	34,161
Non-controlling interests	27	-	13
Total equity		25,066	34,174

The notes on pages 43 to 87 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 17 August 2020.

They were signed on its behalf by

Michael Goldstein

Chief Executive Officer

Company balance sheet

as at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	16	44	50
Right-of-use assets	17	650	–
Investment in subsidiary companies	18	12,088	14,752
Investment in Deep Discount Bonds	18	9,051	9,627
Other investments	19	–	138
Total non-current assets		21,833	24,567
Current assets			
Loans	20	24	29
Trade and other receivables	21	7,716	4,211
Cash and cash equivalents	22	5,215	13,136
Total current assets		12,955	17,376
Total assets		34,788	41,943
Current liabilities			
Borrowings	23	(2,050)	–
Trade and other payables	23	(645)	(1,935)
Lease liabilities	17	(298)	–
Total current liabilities		(2,993)	(1,935)
Non-current liabilities			
Borrowings	24	–	(2,050)
Other creditors	24	(86)	(483)
Lease liabilities	17	(426)	–
Total non-current liabilities		(512)	(2,533)
Total liabilities		(3,505)	(4,468)
Net assets		31,283	37,475
Equity			
Share capital	26	4,448	4,436
Share premium		50,799	50,104
Equity instrument		1,293	1,293
Accumulated losses		(25,257)	(18,358)
Total equity		31,283	37,475

The parent company's loss after tax for the financial year amounts to £6,902,000 (2019: loss £342,000).

The notes on pages 43 to 87 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 17 August 2020.

They were signed on its behalf by

Michael Goldstein

Chief Executive Officer

Consolidated statement of cash flows

for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Cash flows from operating activities		
Loss before tax	(9,660)	(3,489)
Adjustments for:		
Depreciation and amortisation	53	23
Share-based payments	340	67
Provision for bad and doubtful debts	1,571	282
Impairment of goodwill	1,555	78
Impairment of other investments	8	–
Share of profits of associates	–	(6)
Investment properties and equity release plan financial assets:		
Increases in the fair values of these assets	(1,581)	(2,282)
Realised gains on the disposal of these assets	(695)	(777)
Equity transfer income	(1,367)	(1,497)
Interest payable	4,834	4,999
Changes in working capital:		
(Increase) in trade and other receivables	(609)	(438)
Increase/(decrease) in trade and other payables	586	(323)
Leases advanced	(1,377)	(1,261)
Leases repaid	2,308	2,721
Loans advanced	(20,432)	(19,902)
Loans repaid	18,635	15,660
Loans repaid by related parties	–	375
Cash used in operations	(5,831)	(5,770)
Corporation tax	(4)	–
Net cash used in operating activities	(5,835)	(5,770)
Cash flow from investing activities		
Proceeds from the sale of Investment properties and equity release plan financial assets	6,258	8,253
Distribution of profits from related parties	–	298
Proceeds of shares sold or issued to non-controlling interests	–	2
Purchase of 50% interest in joint venture partnerships	-	(726)
Purchase of Investment properties and equity release plan financial assets	(42)	(83)
Investment in intangible assets	(545)	–
Purchase of property, plant and equipment	(60)	(69)
Cash acquired on acquisition of Acorn to Oaks	–	262
Net cash generated from investing activities	5,611	7,937
Cash flow from financing activities (see note 31)		
Proceeds from issue of ordinary shares for cash	500	12,472
Proceeds from the issue of 6% Convertible Unsecured Loan Stock 2021	–	2,050
Loans drawn down	4,395	22,944
Repayment of loans	(12,550)	(29,756)
Distributions to non-controlling interests	(25)	–
Interest paid	(637)	(802)
Net cash (used in)/generated from financing activities	(8,317)	6,908
Net increase in cash and cash equivalents	(8,541)	9,075
Cash and cash equivalents brought forward	15,760	6,685
Net cash and cash equivalents	7,219	15,760
Cash and cash equivalents	7,219	15,760
Bank overdraft	–	–
Net cash and cash equivalents	7,219	15,760

Company statement of cash flows

for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Cash flows from operating activities		
Loss before tax	(6,902)	(342)
Adjustments for:		
Depreciation and amortisation	33	11
Share based payments	133	67
Provision for losses in subsidiaries	6,266	305
Provision for amounts owed by related parties	11	13
Impairment of other investments	8	–
Dividends from subsidiaries	(1)	(349)
Interest receivable	(1,152)	(1,142)
Interest payable	211	182
Changes in working capital:		
(Increase) in trade and other receivables	(326)	(358)
(Decrease)/increase in trade and other payables	(331)	151
Net cash used in operating activities	(2,050)	(1,462)
Cash flow from investing activities		
Subscription for shares in Recognise	(3,545)	(1,000)
Loans advanced to group companies	(11,649)	(6,054)
Loans repaid by group companies	8,673	2,510
Repayments of Deep Discount Bonds by Milton Homes	1,500	3,100
Purchase of property, plant and equipment	(12)	(60)
Net cash used in investing activities	(5,033)	(1,504)
Cash flow from financing activities (see note 31)		
Proceeds from issue of ordinary shares	500	12,472
Proceeds from issue of 6% Convertible Unsecured Loan Stock 2021	–	2,050
Loans drawn down	–	2,354
Loans repaid	(1,181)	(2,354)
Interest paid	(157)	(171)
Net cash (used in)/generated from financing activities	(838)	14,351
Net increase in cash and cash equivalents	(7,921)	11,385
Cash and cash equivalents brought forward	13,136	1,751
Net cash and cash equivalents	5,215	13,136
Cash and cash equivalents	5,215	13,136
Bank overdraft	–	–
Net cash and cash equivalents	5,215	13,136

Notes to the financial statements

1 General information

City of London Group plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of its registered office is 6th Floor, 60 Gracechurch Street, London EC3V 0HR. The Company is listed on AIM.

City of London Group plc is the parent company of a group which currently operates in three business sectors: the first focused on providing finance to the SME sector, including professional services firms, through both loan and lease finance, the second administering home reversion plans in the UK residential property market and the third being a financial services intermediary concentrating on the SME market. A subsidiary of the Company, Recognise Financial Services Limited, is in the process of applying for a UK banking licence. Details of the activities of the Group are given in the Strategic report.

These consolidated and separate financial statements have been approved for issue by the Board of directors on 17 August 2020.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated and separate financial statements of City of London Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and financial assets – equity release plans. These assets are carried at fair value.

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 2006. The Company has taken advantage of section 408 of the Companies Act 2006, and the Statement of Income and the Statement of Comprehensive Income of the parent company are not presented.

The consolidated and separated financial statements are presented in sterling, which is also the Group's functional currency, with amounts rounded to the nearest thousand, unless otherwise stated.

Going concern

The financial statements of the Group have been prepared on a going concern basis.

The directors consider the going concern basis to be appropriate following their assessment of the Group's financial position and its ability to meet its obligations as and when they fall due. The Group's going concern position is further discussed in the Strategic report on page 15. The Strategic report also includes a Group viability statement on page 16.

In making their going concern assessment the directors have considered the following:

- the base case and stressed Group cash flow forecasts for 18 months following the financial year end;
- the capital structure and liquidity of the Group;
- the principal and emerging risks facing the Group and its systems of risk management and internal control;
- the uncertainties arising from the COVID-19 pandemic on the UK economic outlook and actions the Group could take to mitigate the impact on the business (see page 14 for actions already taken);
- the advanced stage of the banking licence application made by Recognise to the PRA; and
- the discussions with a third party on a fund raise which are at an advanced stage.

Key assumptions made in preparing the base case cash flow forecasts are:

- revenues prudently reflect the impact of suspending new lending across the Group and offering moratoriums and other repayment arrangements to support CAML customers as well as lower house sale revenues for Milton Homes and commercial brokerage revenues for Acorn to Oaks; and
- base case costs prudently reflect the actions taken to date in response to the impact of COVID-19 on the Group as well as further cost reductions which would be made if required.

The directors have considered 'most likely' and 'worst case' scenarios, both of which allow for implementation of mitigating actions if required:

- Under the 'most likely' scenario:
  - CAML: reduction in the expected cash receipts from the existing loan and lease portfolios with 40% shortfall in early months improving to 15% shortfall in the latter part of the period.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

  - PFS: borrowers defer all loan repayments with no inflows for the foreseeable future.
  - Acorn to Oaks: income drops by c55% from planned levels.
  - Milton Homes: cash generation reduces by c70% versus plan.
  - Recognise: spend reduced and cost deferred.
- Under the 'worst case' scenario:
  - CAML: 50% reduction in income compared with 'most likely' scenario.
  - PFS: no change from 'most likely' scenario.
  - Acorn to Oaks: 40% reduction in income compared with 'most likely' scenario.
  - Milton Homes: cash generation reduces by a further c33% compared with the 'most likely' scenario.
  - Recognise: no change from 'most likely' scenario.

Under the 'most likely' scenario, the Group will have sufficient cash resources to meet its requirements, with Recognise funded from a fund raise, discussions on which are at an advanced stage. However, in the most extreme 'worst case' scenario the Group would have to take mitigating actions in order to have sufficient cash resources. The directors consider this scenario to be remote in view both of the prudence built into the scenarios and the fact the scenarios do not include further mitigations available to the Group.

Such mitigating actions within management control include delayed capital expenditure, further reductions in discretionary spend and reductions in employee headcount. Other possible mitigating actions include seeking shareholder support, the sale of assets, agreed payment deferrals with suppliers and further cost reductions across the Group.

The directors have also considered the wider operational consequences and ramifications of the COVID-19 pandemic. The business infrastructure has proved resilient in protecting the safety of employees and maintaining high levels of client service in the 'working from home' mode of operations. While government lockdown restrictions have caused some disruptions, the Group's IT system and processes have enabled all Group functions to operate efficiently. The directors continue to actively review the Group's approach in line with latest developments and government guidance.

Following the assessment of the Group's financial position and its ability to meet its obligations as and when they fall due, including the financial implications of the COVID-19 pandemic, as well as considering the discussions with a third party on a fund raise which are at an advanced stage, the directors are not aware of any material uncertainties that cast significant doubt on the Group's ability to continue as a going concern.

2.2 Adoption of new standards and interpretations

The following new standards and interpretations were adopted for the first time in these financial statements:

- IFRS 16 'Leases'; and
- IFRIC 23 'Uncertainty over Income Tax Treatments.'

The Group has chosen not to restate comparatives on adoption of both standards, and therefore, the revised requirements are not reflected in the prior year financial statements. Any changes required on adoption of these standards have been recognised in the opening equity balances. Details of the impact of these two standards are given below.

IFRS 16 'Leases'

With effect from 1 April 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. Through its lending businesses, the Group provides finance leases to the UK SME market which are accounted for under IFRS 9.

The Group adopted IFRS 16 using the modified retrospective approach with recognition of transitional adjustments on the date of initial application (1 April 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

Notes to the financial statements / continued

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedient when applying IFRS 16 to leases previously classified as operating leases under IAS17:

- apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of the lease term remaining as the date of initial application.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

The Group assessed all leases in place at 1 April 2019. As at the date, all leases fell within one of the following two categories:

- lease term is 12 months or less; or
- underlying asset is of low value.

Accordingly, there was no impact on the statement of financial position as at 1 April 2019: the Group did not hold any right-of-use assets at that date.

The lease payments associated with all leases in place at 1 April 2019 have continued to be recognised as an expense on a straight-line basis over the lease term.

The table below reconciles the minimum lease commitments disclosed in the accounts for the year ended 31 March 2019 with the amount of lease liabilities recognised on 1 April 2019:

	1 April 2019 £'000
Minimum lease payments under non-cancellable operating leases at 31 March 2019	85
Less: short term leases not recognised under IFRS 16	(77)
Less: low value leases not recognised under IFRS 16	(8)
Lease liability as at 1 April 2019	–

Information on leases in place during the year and at the year-end is given in note 17.

IFRIC 23 'Uncertainty over Income Tax Treatments'

IFRIC 23 provides guidance of the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Group has elected to adopt IFRIC 23 retrospectively with the cumulative effect of initially applying the interpretation recognised at 1 April 2019, the date of initial application. Consequently, the prior year has not been restated. There was no impact on the Group following its adoption of IFRIC 23.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective. These standards, which are effective for annual periods beginning on or after 1 January 2020 unless otherwise stated, have been adopted by the EU.

Amendments to References to the Conceptual Framework in IFRS Standards

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Material

The Company is currently assessing the impact of these amendments to the accounting standards.

2.3 Consolidation

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. In accordance with IAS 27, the Group recognises any non-controlling interest in the acquiree

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets on a transaction by transaction basis.

2.4 Associates

An associate is an entity over which the Group is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associates are incorporated in these financial statements using the equity method of accounting. The Group's share of profits and losses in associates is included within the Group's profits/(losses) from operations. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the book values of the identified net assets of the associate at the date of acquisition is recognised as goodwill.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related expenses are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interests in the fair value of the net identifiable assets, liabilities and contingent liabilities recognised.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportional share of the acquiree's net assets. The Group treats transactions with the non-controlling interest as transactions with equity owners of the Group. For purchases from non-controlling interests the difference between the consideration paid and the relevant share of net assets acquired is recorded in equity.

2.6 Intangible assets

(a) Goodwill

Goodwill arising on consolidation represents the excess of the cost at acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually or more frequently when there is an indication it may be impaired. For the purposes of assessing impairment, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination, which are the subsidiaries themselves. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

(b) Software licence and development

Software licence and development costs are third party costs incurred in relation to the core banking platform being developed by Recognise Financial Services Limited. Core banking platform costs include the development of software, application development and implementation costs. Costs to establish feasibility or to maintain existing performance are expensed as are internal costs incurred on developing the core banking platform.

Costs capitalised for the core banking platform will be amortised using the straight-line method over its useful life. Amortisation will begin from the date when the asset is released in a live environment after it has been fully tested. For most elements of the core banking platform this will be the date on which Recognise Financial Services Limited begins trading on being granted authorisation from the Regulator. Other elements of the core banking platform will be released after that date.

Software licence and development costs are stated at historical cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost by equal annual instalments over their estimated useful economic lives as follows:

Core banking platform	5 years straight-line
Software Licences	5 years or the period of the software licence if less, straight-line

Notes to the financial statements / continued

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

Fixtures, fittings & equipment	3 years straight-line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.8 Non-financial assets

(a) Investment property

Freehold and leasehold property held for capital appreciation that is not occupied by the Group is classified as investment property.

The investment properties held by Milton Homes were acquired through a traditional home reversion product where a customer sold all or part of the equity in their home to Milton Homes.

Investment property is measured initially at cost, including commissions paid to independent financial advisors and directly attributable property acquisition transaction costs, and is thereafter reported at fair value, which reflects market conditions at the period end date.

Gains or losses arising from a change in the fair values of the investment properties are recognised in the consolidated income statement in the year in which they arise.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future benefits can be expected. The gain or loss arising from the disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

(b) Other non-current assets

The carrying value of other non-current assets is reviewed on an on-going basis to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of its fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.9 Financial assets

A single classification and measurement model is used by the Group and Company for financial assets, which is based on the business model for managing financial assets and the purpose for which the financial assets were acquired.

Under IFRS 9, financial assets fall into one of three principal classification categories: (i) amortised cost, (ii) fair value through profit and loss ('FVTPL') or (iii) fair value through other comprehensive income ('FVOCI'). 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 of the Group and the basis of measurement are set out below.

(a) Financial assets – equity release plans

The financial assets – equity release plans comprise a product where Milton Homes acquires the right to a share of the customer's home: the percentage interest increases each month up to a predefined amount.

Through Property Plan agreements, the Group owns rights to increasing beneficial interests in residential properties in the United Kingdom. The values of these interests are, subsequent to initial recognition at cost, measured at fair value with changes recognised in the consolidated income statement ('FVTPL') as this reflects changes in value over time from holding these interests. Directly attributable transaction costs are excluded from the initial cost of financial assets which are fair valued through profit or loss.

Gains or losses arising from a change in the fair values of the financial assets are recognised in the consolidated income statement in the year in which they arise.

A financial asset is derecognised on disposal or when the financial asset is permanently withdrawn from use and no future benefits can be expected. The gain or loss arising from the disposal of financial assets is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

(b) Loans, trade and other receivables

Loans, trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date which are classified as non-current assets. The amounts due are recognised initially at fair value with subsequent changes recognised in the consolidated income statement ('FVTPL').

Loans advanced by the Group's lending businesses and trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment under IFRS 9 which is recognised in the consolidated income statement.

(c) Finance leases receivable

Where the Group leases out equipment under a lease or hire purchase agreement and there is a transfer of substantially all the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease and the net investment is included in interest-bearing leases receivable.

Amounts due under finance leases and hire purchase agreements are recognised initially at fair value and, subsequently, are measured at an amortised cost that reflects a constant periodic rate of return on the net investment outstanding.

The Group has elected to account for finance leases and hire purchase agreements under IFRS 9.

(d) Legal case investments

Legal case investments comprise seed funding made into funds which were used to fund legal cases. Following initial recognition when the payment to the fund was made, the legal fund investments are subsequently carried at fair value with gains and losses arising from changes in fair value of each fund being recognised in other comprehensive income ('FVOCI').

(e) Investment in subsidiaries – separate financial statements

Investments in subsidiaries are accounted for at cost less impairment.

(f) Investment in Deep Discount Bonds – separate financial statements

The Company holds Deep Discount Bonds issued by its wholly-owned subsidiary, Milton Homes Limited. The Deep Discount Bonds have an interest element of 10% accruing to reach the maturity value on the repayment date of 31 December 2030. The Deep Discount Bonds were recognised initially at their fair value, which is deemed to be the maturity value discounted at the coupon rate of 10%. Subsequently, the carrying amount reflects interest accrued and partial repayments made since that date. On the repayment date, the carrying value will be the maturity value of the remaining Deep Discount Bonds.

2.10 Identification and measurement of the impairment of financial assets

The Group assesses all financial assets for impairment.

Under IFRS 9, entities are required 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. The provisions for impairment under IFRS 9 are disclosed in note 20.

(a) Loans and finance leases receivable:

The general approach in IFRS 9 has been used with the Group using the IFRS 9 three-stage expected credit loss ('ECL') approach for measuring impairment – Stage 1, Stage 2 and Stage 3.

The Group recognises ECLs from default events expected within 12 months of the reporting date if there has not been a significant increase in credit risk ('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). Where financial instruments are credit impaired, as determined from the quantitative and qualitative criteria set out below, specific provisions are made on an individual basis in accordance with laid-down policies.

Specific provisions on individual financial instruments are assessed by reference to information available on the recoverability of amounts owed. This may include a change in the credit quality of the debtor and an assessment of expected likely cash flows as well as consideration of the strength of personal guarantees or other security held.

When assessing ECL entities are required to consider both information about current conditions and reasonable forecasts about future expectations. This process 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 financial assets.

Notes to the financial statements / continued

Relevant factors include:

- Whether there has been a 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 (deterioration of 20 or more points) 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 also moves from Stage 1 to Stage 2 when contractual payments are more than 30 days past due.

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 is 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.

The single most important forward-looking macro-economic factor influencing the future performance of the current lease and loan portfolio is considered to be the predicted growth of the UK economy, as indicated by economic forecasts of GDP growth percentages (the 'base economic scenario').

Under IFRS 9, the Group is required to consider other forward- looking scenarios in addition to the base economic scenario. The Group considers 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 is calculated by applying a weighted probability of the results of each scenario.

The Group calculates the ECLs for its current lease and loan portfolio using an internally-developed model which draws on both historical data on its portfolio and forward-looking information as well as expert judgement.

(b) Property bridging loans:

The simplified approach is used when applying IFRS 9 to property bridging loans which are assessed individually for impairment. A property bridging loan is a short-term loan secured over the property for which the loan is advanced where the directors/sponsors also provide personal guarantees. The amount made available to a borrower, which is based on an independent valuation of the property, is restricted to a conservative percentage of that valuation.

(c) Intra-group loans and similar balances:

The simplified approach is used when applying IFRS 9 to determine whether it is necessary to make any provision for lifetime expected credit losses in respect of loans and similar balances between the Company and its subsidiaries.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and call deposits with maturity of three months or less from the date of inception.

2.12 Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual obligations entered into.

An equity instrument is any contract which evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the consideration received less any direct costs of issue and are included within Equity. Equity instruments include City of London Group plc Rollover Loan Notes due 2021.

2.13 Trade payables

Liabilities are recognised as trade payables when an invoice is received. Expenses incurred for which an invoice has not yet been received are included in accruals. Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

2.15 Preference shares

Preference shares held by non-controlling interests in subsidiary companies are included as borrowings in non-current liabilities. The dividends on these cumulative preference shares are recognised in the income statement as an interest expense as they accrue.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

When the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable issue costs, is deducted from equity attributable to the Company's owners until the shares are cancelled or reissued. When such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Company's owners.

2.17 Dividends

Dividends declared on the Company's equity share capital are recognised as a liability when an irrevocable obligation to pay the dividends is established. In the case of interim dividends this arises when the dividend is paid. In the case of final dividends this is the date at which the dividends are approved at a shareholders' general meeting.

2.18 Leases

The Group recognises right-of-use assets and lease liabilities for most leases over 12 months long. Right-of-use assets and lease liabilities are initially recognised at the net present value of future lease payments, discounted at the rate implicit in the lease or, where not available, the Group's incremental borrowing cost. Subsequent to initial recognition, the right-of-use asset is depreciated on a straight-line basis over the term of the lease. Future rental payments are deducted from the lease liability, with interest charged on the lease liability using the incremental borrowing cost at the time of initial recognition. The Group recognises lease liability payments within financing activities on the Statement of Cash Flows.

The Group assesses the likely impact of early terminations in recognising the right-of-use asset and lease liability where an option to terminate early exists.

Leases of low value assets or with terms of 12 months or less are recognised on an accruals basis directly to profit or loss.

In the prior year leases were accounted for in accordance with IAS 17, with leases where the lessor retains substantially all the risks and benefits of ownership of the asset being classified as operating leases. Operating lease payments were recognised as an expense in the income statement on a straight-line basis over the lease term.

2.19 Contingent consideration

The contingent consideration payable on a business combination if specified future events occur or conditions are met is recognised as part of the consideration at the acquisition date at its fair value. The obligation to pay contingent consideration is classified as a financial instrument or an equity instrument according to its terms.

Where the contingent consideration is classified as a financial instrument, it is recorded at acquisition at its amortised cost in accordance with IFRS 9.

Where there are changes in the fair value of the contingent consideration resulting from events after the acquisition date and the contingent consideration has not been classified as an equity instrument, the fair value is reassessed annually, and the changes are recognised in the profit and loss account.

No reassessment is made where the contingent consideration has been classified as an equity instrument.

2.20 Intra-group balances – separate financial statements

Intra-group loans and similar balances between group companies are held at amortised cost. The Group has applied the simplified approach to recognise lifetime expected credit losses on these intra group balances.

2.21 Revenue and cost of sales

Revenue comprises profits arising on investment properties and financial assets – equity release plans, interest income, arrangement and other fees, including commission.

The profits arising on investment properties comprise the profit or loss on disposal of investment properties and the gain on revaluation of the investment properties. The profits arising on the financial assets – equity release plans comprise the profit or loss on reverted properties, the gain on the revaluation of these financial assets and the Equity Transfer Rate ("ETR") income.

Notes to the financial statements / continued

Profits or losses on the sale of financial assets and reverted properties are recognised on completion of the sale. Profits or losses on disposal are calculated as net sales proceeds less the carrying value of the Group's beneficial interest in the properties determined with reference to the most recent valuation.

The gains or losses on revaluation of the Group's interest in the investment properties and the equity release plan financial assets are recognised following completion of each periodic valuation.

Equity Transfer Rate ("ETR") income represents the recognition of the increase in the Group's beneficial interest in the properties underlying the equity release plan financial asset portfolio in accordance with the contractual terms of the Retirement Plus Property Plan. ETR income is recognised on a monthly basis over the term of the plan until the Group's beneficial interest reaches the maximum set out in each individual Property Plan.

Interest income is recognised on an accruals basis using the effective interest rate method.

Arrangement and other fees, including commission, are recognised as the underlying services are provided. The financial services intermediary recognises revenue when an insurance contract is placed with the insurance provider, following acceptance of the proposal from the client.

Revenue includes only the gross inflows of economic benefits received and receivable by the Group on its own account. Amounts which the Group collects as agent on behalf of third parties are not recognised as revenue. Instead, revenue is the amount of fees and commission earned.

Costs directly attributable as cost of sales, which principally comprise commission and introduction fees paid to third parties, are recognised when incurred.

2.22 Other income

Other income is recognised on an accruals basis.

2.23 Employee benefits

The Group operates an equity-settled share-based payment compensation plan under which the entity receives services from employees as consideration for equity instruments of the Group.

The fair value of the employee services received by the Group is recognised as an expense. The total value of the expense is determined by reference to the fair value of the equity award granted including any market performance conditions but excluding non-market conditions such as continued employee service periods.

Non-market conditions are included in the assumptions about the number of equity awards that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At each reporting date the Group updates its estimate of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

Where relevant the social security contributions payable in connection with the grant of equity awards are considered an integral part of the grant itself and are charged to the income statement at the time of vesting of the awards.

2.24 Employee Benefit Trust (EBT)

The assets and liabilities of the EBT are held separately from the Company and are fully consolidated in the consolidated balance sheet. The costs of purchasing own shares held by EBT are shown as a deduction against equity in the Group balance sheet. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated income statement.

2.25 Corporation tax

Tax on the result for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax assets are recognised to the extent that it is possible that future taxable profits will be available against which the temporary differences can be utilised.

Notes to the financial statements / continued

3 Judgements and estimates

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The basis of the estimates and judgements on key items are given below.

(a) Valuation of investment properties and financial assets – equity release plans

The Group owns beneficial interests in residential properties in the United Kingdom through Milton Homes. The legal form in which these beneficial interests are held determines whether the interests are classified as investment properties or financial assets – equity release plans.

Valuation method

In both cases, the fair values of these interests are based on the equity owned percentage of the properties upon the Group taking vacant possession (estimated in relation to financial assets – equity release plans), the fair value of the properties at the balance sheet date, assuming vacant possession, less a discount to take account of the risk of the realisation of those interests.

The Board is responsible for determining the Group's valuation policies and procedures. An external valuer is appointed to perform the valuation. The selection criteria used to select that valuer include their market knowledge and expertise, independence and demonstrable compliance with professional standards.

The fair value of the properties is determined on a market value basis with an assumption of vacant possession. One third of the properties each year are inspected externally to arrive at this value using a conventional approach of comparable analysis. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group's assets, including those properties which have become vacant and are in the process of being sold. Where the Group has taken vacant possession of property an allowance has been made against the full market value to take account of necessary refurbishment costs. Where properties are not inspected by the valuers a composite average of relevant house price indices are applied to the value estimated when previously inspected by the valuers.

The discount percentage is based upon a number of factors over which judgements are made. Changes are made in discount percentages in line with the market. For both categories of properties, these judgements include:

- Investment term – the length of time until vacant possession becomes due.
- Investment rate – also known as a discount rate and this includes a judgement of the current marketability and condition of the property.

For investment properties, the discount percentage also has regard to:

- Cost saving rate – the potential cost saving of acquiring already existing life tenancy investments.

For properties categorised as financial assets – equity release plans, the discount percentage also has regard to:

- Equity interest upon the Group taking vacant possession – the anticipated equity percentage expected to be held by the Group upon taking vacant possession.

The valuations of these properties are capped at the estimated value of the Group's interest in the vacant possession value of the property should it have been obtained at the balance sheet date.

There were no changes in valuation techniques during the year.

Valuation assumptions

Investment term – the investment term is the period until the Group obtains vacant possession. This is based on the age of the tenant occupying the property and published life expectancy tables from the Office for National Statistics for the period 2016-18. Where there is joint tenancy, the life expectancy of the tenant with the longest life expectancy has been used.

The length of the investment term is modified by applying a "speed up" rate to the life expectancy figures, as this reflects market evidence that the lower the age of the youngest tenant, the more likely it is that the Group will be able to access vacant possession before the end of the tenant's life, through the tenant entering into a care home or living with other family members.

Notes to the financial statements / continued

The speed up rate applied ranges from 10% for younger tenants to 2.5% for older tenants. This remains unchanged from the prior period.

Investment rate – this input reflects the risk and opportunity which includes the growth prospects and marketability prospects of the property. Guidance is taken from the yield rates used by Valuation Tribunals for residential property.

The investment rates applied range from 5.75% to 7%. This remains unchanged from the prior period.

For properties held under equity release plans, the equity interest upon the Group taking vacant possession – the anticipated equity percentage expected to be held by the Group upon taking vacant possession is calculated with reference to the expected investment term, the equity interest owned by the Group at the balance sheet date and the additional slices of equity in each property that will accrue under the terms of the equity release plans.

For investment properties, the cost saving rate – In determining the discount percentage, an adjustment is made for each property to take into account the potential cost saving of acquiring already existing life tenancy investments. It is estimated that the initial set up cost per property of acquiring life tenancy investments is approximately 5% of the value of the vacant possession equity being acquired.

1.25% uplift has been applied to account for the potential cost savings of acquiring already existing life tenancy investments. This remains unchanged from the prior year.

In the course of preparing the valuation as at 31 March 2020, the external valuer has considered the potential impact of COVID-19. In accordance with the mandatory requirement introduced by RICS on 17 March 2020, his valuation includes a material uncertainty clause which encapsulates the difficulty that valuers have of accurately reflecting market circumstances at a valuation date where there is an absence of contemporaneous evidence and a degree of uncertainly going forward. Some adjustments have been made to the marketability ratings of properties to reflect the anticipated increase in the length of time before a sale can be completed during the COVID-19 pandemic. The external valuer stated that less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case. However, it was concluded that it would be inappropriate to make what would at this stage be arbitrary adjustments to vacant possession values or deviate from the established methodology.

(b) Assessing impairment of investments in subsidiaries

Investments in subsidiaries are valued at cost less impairment. The directors consider the fair valuation of each underlying operating business to be an important measure of the current position of that business.

Recognise Financial Services Limited (“Recognise”) continued to progress its application for a UK banking licence during the year, developing and refining its operational plans to take account of feedback received from the PRA and FCA. The Company invested a further £3,545k in Recognise during the year to bring its total investment in ordinary and deferred shares to £5,552k at 31 March 2020. A further amount of £2,600k was invested in April 2020 so that Recognise could continue to develop its banking infrastructure and systems in readiness for operating, should a banking licence be granted. The directors consider that it is appropriate to continue to carry the investment at cost until the outcome of the application is known.

The directors have considered the carrying value of the Company’s investment in Milton Homes Limited which comprises ordinary shares and Deep Discount Bonds in parallel with its annual reassessment of the goodwill arising on the acquisition. Following the calculation of the present value of forecast future cash flows (see note 15), it was concluded there had been a significant further reduction in the value of the investment, due in large part to the uncertainty surrounding the impact of the COVID-19 pandemic on future HPI rates over the medium and long term. While the projected cash flows showed the Deep Discount Bonds would be repaid in full, it appeared probable the value of the ordinary shares would reduce to zero over a period of between four and seven years, with an impairment in the current year of £3,848k. Accordingly, the directors have concluded no provision for impairment is required for the Deep Discount Bonds but that a provision for impairment of £3,848k should be made for the ordinary shares. The fair value of the investment as at 31 March 2020 is thus £9,051k for the Deep Discount Bonds and £4,398k for the ordinary shares.

Notes to the financial statements / continued

3 Judgements and estimates continued

The directors have considered the carrying value of the Company's investment in Acorn to Oaks Financial Services Limited which it acquired in January 2019. This was done in parallel with the first re-assessment of both the goodwill arising on the acquisition and the deferred consideration payable under earn-out arrangements (see note 15). The commercial finance brokerage division, set up in early 2019, has taken longer to establish itself than initially envisaged and progress has been delayed further by the COVID-19 pandemic which is likely to affect the commercial property market over the medium term as well as the implementation of expansion plans for the rest of the business. In view of the uncertainties on the growth of the business in the medium term and hence its profitability, the directors concluded that the fair value of the investment was less than its cost and a provision for impairment of £754k has been made. Part of this provision arises as the cost of the investment included £476k for estimated deferred consideration payable. The estimated gross deferred consideration at 31 March 2020 is significantly less than the initial estimate and, as a consequence, an amount of £425k has been released to the profit and loss account: this partially off-sets the provision for impairment. The fair value of the investment as at 31 March 2020 is thus £1,130k.

The directors have considered the carrying value of the Company's investment in Credit Asset Management Limited ('CAML') following the Board's decision in March 2020 that, as a consequence of the group-wide moratorium on new lending and the intention for all new lending operations to be made through Recognise Financial Services Limited, no further lending should be made by CAML but that it should run off its current loan and lease portfolios to maturity.

Forecasts over the run-off period of five years show that CAML will not require financial support during this period and, as a result of progressive reductions in its cost base, it will generate a modest overall profit in the period. Accordingly, the fair value of the investment has been assessed by reference to the net assets attributable to ordinary shareholders as at 31 March 2020, after deducting the amounts attributable to the holders of CAML's 7% Preference Shares. The amount attributable to the investment in ordinary shares at that date was £1,008k. Accordingly, a provision of £1,457k has been made to reduce the carrying amount of the investment to £1,008k.

(c) Provisions for impairment of financial assets

Current lease and loan portfolio, excluding property bridging loans

The IFRS 9 model developed when the Group adopted IFRS 9 has been used as a basis for generating the IFRS 9 provision in respect of the current lease and loan portfolio held by Credit Asset Management Limited and Professions Funding Limited ('CAML/PFL'). As anticipated, both the application of the methodology and the model have been refined and developed over the period.

The lease and loan portfolio is divided into four product areas: finance lease, hire purchase, commercial loans and professions loans. Loan and lease finance is provided to the UK SME market with business originated through a network of brokers. As such the portfolio is widely spread with borrowers operating across the UK economy.

Agreements which are 30+ days in arrears (2019: 60+ days in arrears) are now categorised as being in Stage 2 so that the ECL for these agreements is calculated for the whole remaining life of the agreement and not for the next 12 months only.

A fundamental premise of IFRS 9 is that current provisions should take account of probable future defaults that will arise from future events. Given the nature of the CAML/PFL portfolio with limited concentration in any one sector or geographical area, the CAML/ PFL IFRS 9 model uses UK GDP growth percentages produced by the Bank of England and the Office for National Statistics in its calculations under various scenarios. This metric is not in itself considered adequate to reflect the possible impact of the COVID-19 pandemic on the CAML/PFL portfolio.

There is considerable uncertainty on the impact that the COVID-19 pandemic will have in both the short and medium term on the level of future defaults and probable level of losses.

In March, as the initial impact of COVID-19 was becoming apparent, CAML/PFL contacted the majority of its customers to determine the impact of COVID-19 on their business, what actions they had taken to mitigate the impact, what government schemes they had used or were intending to utilise and if they were in a position to meet their financial obligations, including or if there were likely to be difficulties in meeting repayments as they fall due. As appropriate, customers were offered the options of reduced payments, interest only, or full capital and interest moratoriums for 3 months. Agreements were placed into one of four categories: red (unlikely to pay), amber (seeking moratorium and future likeliness to pay thereafter uncertain), yellow (seeking moratorium but no reason to believe scheduled payments cannot recommence thereafter) and green (no reason to believe customer will not maintain

Notes to the financial statements / continued

scheduled payments). The categories were taken into account in the IFRS 9 provision assessment.

A follow-up programme to contact larger customers and those with agreed moratoriums/payment holidays was carried out in June and July to reassess the position.

The results of both the customer contact exercises have fed into the IFRS 9 provisioning process, in relation to all agreements, irrespective of whether they are categorised as Stage 1, 2 or 3.

Where agreements are categorised as Stage 3 agreements (ie are in default) specific provisions are made on an individual basis by management who use their expert judgement as well as any external information available in assessing the appropriate level of provision. In the context of the additional uncertainty introduced by COVID-19 when assessing the likely level of future recoveries, management has also considered the sources of potential recoveries by category (eg guarantors, asset realisations) in assessing future average recovery percentages.

The specific provisions feed back into the model and, through the effect on the figures for both PD and LGD, impact on the ECLs for Stage 1 and Stage 2 agreements.

The results of the extensive customer contact exercises from March onwards were fed back into the assessment of the IFRS 9 provision in several ways.

In the Phase 2 follow up customer contact exercise which began in June, approximately a third of customers contacted requested a new or extended moratorium on payments. However, 86% of the portfolio net investment overall was categorised as either "yellow" or "green" on the basis of information given by customers. This up-to-date direct information from customers on their ability to make payments as they fall due has been utilised in assessing the IFRS 9 impairment provision as set out below. When using this information in the model, it was decided it would be appropriate to categorise 56% of the portfolio net investment overall as being either yellow or green, with the reduction of 30% allowing both for the optimism bias of customers and the uncertainty surrounding the economic outlook, including the forecast of increased business failures in the latter part of the year.

Agreements assessed as being in the red category in Phase 1 were immediately categorised as Stage 3 agreements for IFRS 9 purposes, irrespective of whether they were currently in arrears.

Forward-looking macro-economic factors

The forward-looking macro-economic factors in the model are forecasts of GDP growth percentages with base, best and worst scenarios derived from information from the Bank of England and the Office for National Statistics. The annual changes to GDP growth percentages used in the model were:

Year to 31 March Scenario	2021 % growth	2022 % growth	2023 % growth	2024 % growth	2025 % growth
Best	(3.33)	3.98	2.55	2.10	2.10
Base	(5.18)	1.15	1.90	1.88	1.80
Worst (a)	(6.75)	12.00	3.00	3.00	3.00

(a) Worst because it had the largest reduction in the GDP growth percentage in the year to 31 March 2021.

As ECLs for Stage 1 agreements are calculated only for losses anticipated to arise in the next 12 months, the forecast GDP growth percentages for periods after 31 March 2021 have no impact on the size of the provision made under IFRS 9.

ECLs for Stage 2 agreements are calculated over the whole remaining life of each agreement. However, as the weighted average outstanding term of agreements at 31 March 2020 was approximately 2 years, the forecast GDP growth percentages in the latter part of the 5-year period have little impact on the calculation of these ECLs.

When applied to the average annual GDP growth percentage of 0.83% over the 5-year base period to 31 March 2020, the model generates the following factors for the 12 months to 31 March 2021:

Scenario	
Best	603%
Base	827%
Worst	1,018%

These factors were modified by information from the customer contact exercise, as explained below.

Weightings applied

In calculating the ECLs, the following weightings were applied:

Scenario	Weighting
Best	5%
Base	60%
Worst	35%

This weighting was chosen because it was felt that, while the base case was the most probable outcome, any divergence was more likely to reflect a weaker economic outlook.

The application of the model, as modified by the overlays summarised below generated an increase in the Stage 1 and Stage 2 IFRS 9 impairment provision as at 31 March 2020 of £630,000.

Notes to the financial statements / continued

3 Judgements and estimates continued

Overlays in the model

LGD: LGDs in the future are expected to be higher than in the past due to the effect of COVID-19 on the economy. Based on external information available and management expert opinion, it was estimated that the percentage LGD increases would be as shown in the table below. These increases were applied in the model.

Recovery category	LGD increase %	Applied to portfolio
Guarantees	15%	Professions loans and Commercial loans
Assets	20%	Lease and hire purchase

PD: The model uses forecast changes in GDP growth percentage as a forward predictor of changes in PD for the portfolio, with larger changes in GDP growth percentage having an increasingly material impact on the PDs. In the circumstances of a forecast sharp fall in GDP over a short period, the figures generated by the model predicted very large increases in PDs of 603% and 1,018% for the best- and worst-case scenarios respectively. The model did not properly reflect information from customers contacted in Phase 2 of the customer contact exercise on their present assessment of being able to meet payments on their agreements as they fall due. To allow for this, the figures generated by the model for each product were modified by including an additional factor to recognise that many agreements are expected to be paid in accordance with their original terms. As stated above, the percentages for each product category were reduced by 30% so that the overall factor was 56%. The factors applied in the model were as follows:

Product	% of Net Investment marked as "yellow" or "green"	Factor after incorporating 30% adjustment
Finance lease	80%	50%
Hire purchase	91%	61%
Commercial loans	82%	52%
Professions loans	94%	64%
All products	86%	56%

Stage 3 agreements

In accordance with normal practice, agreements in default were assessed individually by management and provisions under IFRS 9 made having regard both to information from third parties on the estimated amounts recoverable, whether by calling on guarantees or by the sale of assets or otherwise, and management expert judgement.

A further COVID-19 overlay provision of £139,080 was also made to take account of the estimated reduction in future amounts recoverable under guarantees and from the sale of assets due to the forecast economic slowdown arising from COVID-19. As with the overlay for LGD applied in the model to Stage 1 agreements, the reductions were as follows:

Recovery category	LGD increase %	Applied to portfolio
Guarantees	15%	Professions loans and Commercial loans
Assets	20%	Lease and hire purchase

The increase in the IFRS 9 provision for Stage 3 agreements as at 31 March 2020 was £508,000.

The provision for impairment of loans and leases as at 31 March 2020 is shown in note 20 as is an analysis of the movements in the provision for impairment under IFRS 9 during the year.

Property bridging loans

Property bridging loans were assessed individually for impairment using the simplified approach. Each short-term loan is secured over the property for which the loan is advanced and personal guarantees are also obtained from directors/sponsors. The amount made available to a borrower, which is based on an independent valuation of the property, is restricted to a conservative percentage of that valuation. Following an assessment as at 31 March 2020 of the loans existing at that date, it was determined that having regard to the security, the repayment profile and the fact that all loans were fully performing with no payment arrears, no provision for impairment was required.

Intra-group loans and similar balances

Intra-group loans and similar balances between the Company and its subsidiaries have been assessed, using the simplified approach, to determine whether it is necessary to make any provision for lifetime expected credit losses. It was determined that, having regard to the terms of each loan, no provisions were required.

Notes to the financial statements / continued

4 Revenue and cost of sales

Revenue	31 March 2020 £'000	31 March 2019 £'000
Milton Homes (a)	3,643	4,556
CAML (b)	2,035	2,428
Property & Funding Solutions (c)	631	293
Acorn to Oaks (d)	746	224
Other – interest receivable	–	9
Total revenue	7,055	7,510
(a) Milton Homes		
Profit on disposal of investment properties	455	574
Gain on revaluation of investment properties	1,138	1,744
Profit on the disposal of equity release plan financial assets	240	203
Gain on revaluation of equity release plan financial assets	443	538
Equity transfer income arising under equity release financial assets plans	1,367	1,497
	3,643	4,556
(b) CAML		
Loan and lease interest	1,979	2,390
Arrangement fees	56	67
Management fee income		(29)
	2,035	2,428
(c) Property & Funding Solutions		
Property bridging loan interest	521	239
Arrangement fees for property bridging loans	110	54
	631	293
(d) Acorn to Oaks		
Commission	499	134
Fees	247	90
	746	224

Cost of sales	31 March 2020 £'000	31 March 2019 £'000
Commissions and introduction fees	313	9
Costs on acquisition of interests in investment properties/ equity release financial assets	–	5
Total cost of sales	313	14

All revenue arises in the United Kingdom.

Notes to the financial statements / continued

5 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, loan, lease and professions financing and financial services intermediary. A subsidiary is in the process of making a banking licence application. A description of the activities of each business is given in the Strategic report. The COLG segment includes the Group's central functions.

Pre-tax profit and loss

For the year ended 31 March 2020

		Revenue £'000	Operating profit/(loss) £'000	Finance expense £'000	Quasi-equity intra group payments £'000	Profit/(loss) before tax £'000
COLG	Intra-Group	1,151	1,604	(32)	–	1,572
	Other	–	(3,778)	(179)	–	(3,957)
		1,151	(2,174)	(211)	–	(2,385)
Home reversion plans		3,643	2,253	(3,932)	(923)	(2,602)
Loan, lease and professions financing						
Asset based finance, commercial and professional loans		2,035	(641)	(662)	(33)	(1,336)
Property bridging finance		631	282	(29)	(195)	58
Other		–	(8)	–	–	(8)
Banking licence application		–	(3,351)	–	–	(3,351)
Financial services intermediary		746	(36)	–	–	(36)
Intra-Group		(1,151)	(1,151)	–	1,151	–
		7,055	(4,826)	(4,834)	–	(9,660)

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

Notes to the financial statements / continued

Pre-tax profit and loss

For the year ended 31 March 2019

		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	1,142	1,342	–	(114)	–	1,228
	Acquisition and banking licence application	–	(147)	–	–	–	(147)
	Other	-	(1,468)	–	(68)	–	(1,536)
		1,142	(273)	–	(182)	–	(455)
Home reversion plans		4,556	3,241	–	(3,995)	(1,031)	(1,785)
Loan, lease and professions financing							
Asset based finance, commercial and professional loans		2,428	1,089	–	(818)	–	271
Property bridging finance		293	122	–	(1)	(111)	10
Other		9	9	6	(3)	–	12
Banking licence application		–	(1,591)	–	–	–	(1,591)
Financial services intermediary		224	55	–	–	–	55
Other		–	(6)	–	–	–	(6)
Intra-Group		(1,142)	(1,142)	–	–	1,142	–
		7,510	1,504	6	(4,999)	–	(3,489)

The Profit from operations in the Consolidated income statement of £1,510,000 is the sum of £1,504,000 and £6,000 as shown above.

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

Consolidated Net Assets

For the year ended 31 March 2020

		Total £'000
COLG	Home reversion plans	13,449
	Loan, lease and professions financing	5,575
	Financial services intermediary	1,130
	Banking licence application	5,552
		25,706
	Other net assets	5,577
Net assets per entity balance sheet		31,283
Other net liabilities of subsidiary companies		(6,217)
Consolidated Net Assets		25,066

Notes to the financial statements / continued

5 Segmental reporting continued

Consolidated Net Assets

For the year ended 31 March 2019

		£'000	Total £'000
COLG	Other financial assets		138
	Home reversion plans	17,873	
	Loan, lease and professions financing	6,394	
	Financial services intermediary	1,884	
	Banking licence application	2,007	
	Other	150	
			28,308
	Other net assets		9,029
Net assets per entity balance sheet			37,475
Other net liabilities of subsidiary companies			(3,301)
Consolidated Net Assets			34,174

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

6 Administrative expenses

	31 March 2020 £'000	31 March 2019 £'000
Staff		
Payroll (see note 8)	5,443	3,351
Other staff costs	43	81
Establishment costs		
Property costs	648	572
Other, including IT costs	959	513
Auditor's remuneration (see below)	301	164
Legal fees	192	243
Consultancy fees	659	532
Other professional fees	750	381
Provisions for bad and doubtful debts under IFRS 9	1,571	282
Provision for goodwill impairment	1,555	78
Depreciation and amortisation	53	23
Reduction in deferred consideration	(425)	–
Total administrative expenses	11,749	6,220
Expenses relating to:		
Banking licence application project	3,351	1,643
Acquisition of Acorn to Oaks	–	95
Provisions for bad and doubtful debts	1,571	282
Other administrative expenses	6,827	4,200
	11,749	6,220

Directors' emoluments are shown in the Directors' Remuneration report on page 28.

Notes to the financial statements / continued

Auditor's remuneration	31 March 2020 £'000	31 March 2019 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	86	44
Fees payable to the Company's auditors for other services:		
The audit of subsidiaries pursuant to legislation	187	95
Audit related assurance services	4	3
Tax services	24	22
Total fees	301	164

7 Other income

	31 March 2020 £'000	31 March 2019 £'000
Consultancy	–	2
Sundry income	181	226
Share of profits of associates (a)	–	6
	181	234

(a) Profits for the three months to 28 June 2018, when the Group acquired the 50% interest not already held by it from the other partner of its two joint venture limited partnerships. The partnerships were subsequently dissolved in March 2019.

8 Employee numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

Group	31 March 2020	31 March 2019
COLG	10	8
Loans, lease and professions financing	13	11
Home reversion plans	7	8
Financial services intermediary (a)	9	8
Banking licence application project	16	6
Total	55	41

(a) The average number in 2019 was the average for the period from acquisition to 31 March 2019.

The aggregate payroll costs of these employees were as follows:

	31 March 2020 £'000	31 March 2019 £'000
Wages and salaries	4,470	2,875
Social security costs	503	344
Pensions	130	65
Share based payments	340	67
Total	5,443	3,351

Notes to the financial statements / continued

9 Finance expense

	31 March 2020 £'000	31 March 2019 £'000
Loan interest	4,803	4,999
Interest expense on lease liabilities	2	–
Finance expense on deferred consideration	29	–
Total finance expense	4,834	4,999

10 Tax expense

	31 March 2020 £'000	31 March 2019 £'000
UK corporation tax		
Current year charge	5	13
Prior year charge	–	4
Deferred tax		
Relating to origination and reversal of temporary differences	65	60
Total tax expense	70	77

Factors affecting the tax expense for the year

The tax expense for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK, which is 19% (2019: 19%). The differences are explained below.

Tax reconciliation	31 March 2020 £'000	31 March 2019 £'000
Loss before tax	(9,660)	(3,489)
At standard rate of corporation tax in the UK:	(1,835)	(663)
Effects of		
Items not deductible for tax purposes	447	367
Profit on revaluation of assets offset by brought forward losses	(216)	(332)
Other tax adjustments	75	7
Movement on unrecorded deferred tax asset	1,599	694
	70	73

11 Dividends

No dividends were paid and recognised during either the current or prior year. The directors do not recommend payment of a final dividend (2019: nil).

Notes to the financial statements / continued

12 Earnings per share

Basic and diluted

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 year less those held in treasury and in the Employee Benefit Trust (see note 26).

	31 March 2020	31 March 2019
Loss attributable to equity holders (£'000)	(9,742)	(3,579)
Weighted average number of ordinary shares in issue ('000)	39,831	29,307
Basic and diluted earnings per share	(24.46)p	(12.21)p

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.

13 Investment properties

At valuation	31 March 2020 £'000	31 March 2019 £'000
At 1 April	41,040	44,926
Additions	12	12
Disposals	(3,581)	(5,642)
Revaluations	1,138	1,744
At end of period	38,609	41,040
Investment properties	33,505	35,397
Investment properties held for sale (a)	5,104	5,643
	38,609	41,040
Numbers of properties		
At 1 April	271	302
Disposals	(23)	(31)
	248	271

(a) On vacant possession having been obtained.

In accordance with the mandatory requirement introduced by RICS on 17 March 2020, the external valuer has included a material uncertainty clause in his valuation (see note 3(a)).

Notes to the financial statements / continued

14 Financial assets – equity release plans

At valuation	31 March 2020 £'000	31 March 2019 £'000
At 1 April	30,485	30,213
Additions	30	71
Equity transfer	1,367	1,497
On ending of plans	(1,982)	(1,834)
Revaluations	443	538
At end of period	30,343	30,485
Financial assets – equity release plans	27,987	28,459
Financial assets – equity release plans held for sale (a)	2,356	2,026
	30,343	30,485
Numbers of properties		
At 1 April	239	250
Additions	–	1
Disposals	(14)	(12)
	225	239

(a) On vacant possession having been obtained.

In accordance with the mandatory requirement introduced by RICS on 17 March 2020, the external valuer has included a material uncertainty clause in his valuation (see note 3(a)).

Notes to the financial statements / continued

15 Intangible assets

Group	Goodwill £'000	Software licence & development £'000	Total £'000
Cost			
As at 31 March 2018	2,180	–	2,180
Additions in year	1,378	–	1,378
As at 31 March 2019	3,558	–	3,558
Additions in year	57	545	602
As at 31 March 2020	3,615	545	4,160
Accumulated amortisation and impairment			
As at 31 March 2018	–	–	–
Charge in year	78	–	78
As at 31 March 2019	78	–	78
Charge in year	1,555	1	1,556
As at 31 March 2020	1,633	1	1,634
Carrying amount			
As at 31 March 2020	1,982	544	2,526
As at 31 March 2019	3,480	–	3,480

Milton Homes – home reversion plans

The Company has carried out an assessment as to whether there has been a further impairment in the value of the goodwill relating to Milton Homes which had a carrying amount of £2,102,000 at 31 March 2019. The assessment was made based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

As an equity release provider, Milton Homes holds beneficial interests in UK residential properties, which are categorised as either investment properties or financial instruments, depending on the home reversion product. Occupiers continue to live in their home until they die or move to a care facility. Milton Homes has a leveraged exposure to UK House Price Inflation ("HPI") with a spread of realisations over many years. 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, which held interests in 473 properties at 31 March 2020 will continue to sell its properties as reversions occur, producing cash flow for re-investment by the Group.

Milton Homes has prepared long term cash forecasts for the 15 years up to 31 March 2035 for the sale of its existing portfolio of properties with property reversions based on actuarial life tables and assuming various HPI rates. These two factors, both of which are outwith the influence of Milton Homes, are the key determinants of future cash flows, with cash generated reducing progressively over time under all scenarios as the portfolio becomes smaller and the number of reversions falls.

The base case assumes an HPI of 3% per annum over the 15-year period. Sensitivity calculations have been done with assumed HPI rates varying from nil to 6% per annum over the fifteen-year period. The likely impact of the current COVID-19 pandemic on future HPI rates over the medium and long term is uncertain.

Recognising that Milton Homes is an asset-based group holding UK residential property, the future cash flows have been discounted at 6% (the Company's present pre-tax cost of capital) to determine the value in use of the net amount invested in Milton Homes. The net present value of the discounted future cash flows at each year end compared with the net assets of Milton Homes at that date falls progressively to zero over a period varying from 4 years where the HPI is 1% per annum to 7 years for the base case. The rate of reduction increases materially in the latter part of each period.

Notes to the financial statements / continued

15 Intangible assets continued

As the property portfolio is progressively realised, there will be a corresponding reduction in the goodwill associated with Milton Homes. A provision for impairment of £981,000 (2019: £78,000) has been made to reduce the carrying amount of the goodwill to £1,121,000, approximately 50% of its original amount: the factors affecting the provision include the uncertainty of the impact of the COVID-19 pandemic on HPI rates in the medium and long term.

Acorn to Oaks – financial services intermediary

An assessment of the goodwill associated with Acorn to Oaks Financial Services Limited, which was acquired on 7 January 2019, has been made in conjunction with a reassessment of the deferred consideration payable under earn out provisions.

Following a reassessment of the fair values of the assets and liabilities of Acorn to Oaks Financial Services Limited as at 7 January 2019, the date of acquisition, the fair values of Trade and other receivables at that date have been reduced by £57,000, resulting in a corresponding increase in the goodwill arising on acquisition to £1,435,000.

The Company has carried out an assessment as to whether there has been an impairment in the value of the goodwill, based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

Acorn to Oaks has prepared cash forecasts for the 5 years up to 31 March 2025 based on profit forecasts which assume the profitability of the business increases in the first two years and remains stable thereafter, followed by the sale of the business at that date. Sensitivity calculations have been done for various levels of profitability ranging from £175,000 to £350,000 per annum and sales proceeds between £600,000 and £1,200,000. Having regard to variations in medium-term growth forecasts for the UK SME market and the possible impact of the current COVID-19 pandemic, it has been concluded the long-run profits will be in the range of £220,000 to £270,000 per annum with a capital value at 31 March 2025 between £735,000 and £905,000.

The future cash flows have been discounted at 15% per annum to determine the value in use of the net amount invested in Acorn to Oaks. The excess over the net assets of Acorn to Oaks at 31 March 2020 is a measure of the current value of the goodwill at that date A pre-tax discount rate of 15% has been used as the value of this financial services intermediary depends principally on the level of future revenues which in turn depends on its ability to retain and motivate key staff. Applying this to the estimated long-range profits of £220,000 and £270,000 and capital value at 31 March 2025, produces a figure for the current value of the goodwill that is between 48% and 34% less than cost. Accordingly, a provision for impairment of £574,000, being 40% of cost, has been made.

Deferred consideration under earn-out provisions is payable on the basis of the profits of Acorn to Oaks over the three years to 31 March 2022. Following a re-assessment of the forecast profits over the period, the estimate of the gross amount of the deferred consideration has been reduced to £100,000 (2019: £592,000). The results for the year to 31 March 2020 were affected in part by the fact that several commercial finance brokerage division transactions did not proceed as planned due to COVID-19, which is also expected to impact severely the company's planned growth over the medium term. The rate of growth over the medium term was anticipated to be much more rapid only twelve months ago when the deferred consideration payable was first estimated Commercial finance brokerage activity ceased in March and it is unclear as to when this will return to normal levels in the context of the expected downturn in the UK economy.

The reassessed deferred consideration has been recorded at its amortised cost of £86,000, which has been calculated using an effective interest rate of 6% (see note 24). The reduction in the deferred consideration of £425,000 has been credited to the consolidated income statement.

Notes to the financial statements / continued

16 Property, plant and equipment

	Group		Company	
	31 March 2020 £'000	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**
Cost				
At 1 April	132	52	61	1
Additions – acquisition	–	11	–	–
Additions	60	69	12	60
At 31 March	192	132	73	61
Depreciation				
At 1 April	59	36	11	–
Charge for the year	37	23	18	11
At 31 March	96	59	29	11
Net book value				
At 31 March	96	73	44	50

Property, plant and equipment comprises largely office furniture and equipment.

17 Leases

Right-of-use assets

	Group		Company	
Property lease	**31 March 2020 £'000**	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**
At 1 April	–	–	–	–
Additions	665	–	665	–
Amortisation	(15)	–	(15)	–
At 31 March	650	–	650	–

On 11 March 2020, the Company leased office premises under a lease expiring on 24 July 2022, with a fixed periodic rent over the term. In accordance with IFRS 16, this lease has been accounted for by recognising a right-of-use asset and a lease liability. The lease liability has been measured at the present value of the contractual payments due over the period of the lease, using a discount rate of 6%.

All other premises leased by Group companies during the year were occupied under leases that were determinable on giving notice of no more than four months or were categorised as low value leases. The Group opted to recognise the lease expense on a straight- line basis as permitted by IFRS 16.

The impact of adopting IFRS 16 as at 1 April 2019 is shown in note 2.2.

Notes to the financial statements / continued

17 Leases continued

Lease liabilities

	Group		Company	
Property lease	**31 March 2020 £'000**	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**
At 1 April	–	–	–	–
Additions	734	–	734	–
Interest expense	2	–	2	–
Lease payments	(12)	–	(12)	–
At 31 March	724	–	724	–
Amount due within one year	298	–	298	–
Amount due after one year	426	–	426	–

See note 33 for a maturity analysis of the lease liabilities.

The amounts recognised as an expense for the year and future aggregate commitments for short-term leases are:

	31 March 2020 £'000	**31 March 2019 £'000**
Short-term lease expense	232	185
Low value lease expense	–	–
Aggregate undisclosed commitments for short-term leases	79	85

18 Investments

Company	Investment in Deep Discount Bonds £'000	Investments in subsidiaries £'000	Total £'000
Cost			
As at 31 March 2018	11,696	15,140	26,836
Additions in year	–	2,884	2,884
Disposals in year	–	(637)	(637)
Repayments in year	(3,100)	–	(3,100)
Increase in value over period (i)	1,031	–	1,031
As at 31 March 2019	9,627	17,387	27,014
Additions in year	–	3,545	3,545
Disposals in year	–	(150)	(150)
Repayments in year	(1,500)	–	(1,500)
Increase in value over period (i)	924	–	924
As at 31 March 2020	9,051	20,782	29,833
Provision for impairment			
As at 31 March 2018	–	2,967	2,967
Addition in year	–	305	305
Disposal in year	–	(637)	(637)
As at 31 March 2019	–	2,635	2,635
Addition in year	–	6,059	6,059
As at 31 March 2020	–	8,694	8,694
Carrying amount			
As at 31 March 2020	9,051	12,088	21,139
As at 31 March 2019	9,627	14,752	24,379

(i) Being interest accrued in the year.

(a) Recognise Financial Services Limited ("Recognise")

The Company subscribed £3,545,000 (2019: £1,000,000) in cash during the year for deferred shares in Recognise to enable it to progress its application for a UK banking licence.

The Company has put and call option arrangements over the equity interest held by the three executives leading the banking application licence project. Following receipt of the TCR letter after the year-end on 21 July 2020, the executives are now able to exercise their put option and require the Company to purchase their 28% equity interest (see note 28). The maximum amount payable by the Company to acquire the equity interest is £5,600,000 (2019: £5,600,000) which will be satisfied by the issue of the Company's ordinary shares. This is accounted for as a share-based payment. In prior years, the arrangements were not deemed to have a material value in view of the uncertainty regarding the ultimate outcome of the application. However, following receipt of the TCR letter, the value of the arrangements to the executives is the amount payable by the Company to acquire the equity interest.

Notes to the financial statements / continued

18 Investments continued

(b) Milton Homes Limited ("Milton Homes")

Based on the impairment review of goodwill for Milton Homes (see note 15), a provision for impairment in the value of the investment in ordinary shares of Milton Homes of £3,848,000 (2019: £305,000) has been made. The factors affecting the fair value of this investment include uncertainties on the medium and long-term impact on the residential property market of COVID-19. The investment is now carried at approximately 50% of its cost. There is no impairment in the value of the Deep Discount Bonds.

(c) Acorn to Oaks Financial Services Limited ("Acorn to Oaks")

Based on the impairment review of goodwill for Acorn to Oaks (see note 15), a provision for impairment in the value of the investment in ordinary shares of Acorn to Oaks of £754,000 (2019: nil) has been made to recognise the fact that the growth of the business over the medium term and hence its profitability will be significantly less than anticipated due in part to the delay in the company's ability to put its expansion plans into effect as a result of COVID-19.

(d) Credit Asset Management Limited ("CAML")

Following a reassessment of the fair value of this investment as at 31 March 2020, a provision for impairment of £1,457,000 (2019: nil) has been made, reducing the carrying amount to £1,008,000 (see note 3(b)).

(e) Deep Discount Bonds

The maturity date of the Deep Discount Bonds has been extended from 31 December 2020 to 31 December 2030 through the redemption and re-issue by Milton Homes Limited of Deep Discount Bonds on the same terms. The extension was formalised and made effective after the year end.

(f) Investments

Details of investments are as follows:

Company subsidiary undertaking	Nature of business
Milton Homes Limited	Holding company
Retirement Plus Limited	Administrator & arranger of home reversion plans
Milton Homes Properties Limited	Home reversion plan provider
Retirement Plus Property Plans Limited	Home reversion plan provider
Living Plus Limited	Home reversion plan provider
Living Plus Assets Limited	Holder of home reversion plans
Recognise Financial Services Limited	UK banking licence application
Credit Asset Management Limited	Asset finance and loans
Professions Funding Limited	Professions funding
Property & Funding Solutions Ltd	Bridging & development finance
Acorn to Oaks Financial Services Limited	Financial services intermediary
Acorn to Oaks Associates Limited	Financial services intermediary

The Company holds 72% of ordinary shares and 100% of deferred shares in issue (2019: 72% and 100% respectively) of Recognise Financial Services Limited. It has been accounted for as a wholly-owned subsidiary as a result of the arrangements in (a) above.

All the other subsidiary undertakings are wholly-owned.

Notes to the financial statements / continued

All the subsidiary undertakings are held directly by the Company with the following exceptions:

- Professions Funding Limited is a wholly owned subsidiary of Credit Asset Management Limited.
- Retirement Plus Limited, Milton Homes Properties Limited, Retirement Plus Property Plans Limited, Living Plus Limited and Living Plus Assets Limited are wholly-owned subsidiaries of Milton Homes Limited.
- Acorn to Oaks Associates Limited became a wholly-owned subsidiary of Acorn to Oaks Financial Services Limited on 31 March 2020 when Acorn to Oaks Financial Services Limited acquired the 49% interest held by the minority shareholder (see note 27).

All subsidiaries are registered in England and Wales and have a 31 March year end with the exception of Acorn to Oaks Associates Limited whose year end is 31 July. The registered office address of each is 6th Floor, 60 Gracechurch Street, London EC3V 0HR, with the exception of Acorn to Oaks Financial Services Limited and its subsidiary, whose registered office address is 93 Church Street, Bilston, West Midlands, WV14 0BJ.

Two subsidiaries, City of London SME Leasing Limited and City of London Financial Services Limited, which had become dormant, were dissolved during the year.

19 Other investments

Group and Company	**31 March 2020 £'000**	**31 March 2019 £'000**
Cost		
At 1 April and 31 March	138	138
Provision for impairment		
Legal case investments	130	–
Unlisted security	8	–
At 31 March	138	–
Carrying amount		
At 31 March	–	138

Following a re-assessment of the fair values of the items included in Other investments, full provision has been made against the carrying amount in view of uncertainty on both the timing and amount of any realisations. The provision for impairment of the legal case investments has been charged to Other comprehensive income: there is no associated tax charge.

Notes to the financial statements / continued

20 Loans and leases receivable

Non-current	Group 31 March 2020 £'000	Group 31 March 2019 £'000	Company 31 March 2020 £'000	Company 31 March 2019 £'000
Loans	3,593	3,967	–	–
Finance leases	1,600	2,294	–	–
	5,193	6,261	–	–

Non-current loans and finance leases are stated after including provisions of £839,000 for impairment (2019: £256,000).

Current	Group 31 March 2020 £'000	Group 31 March 2019 £'000	Company 31 March 2020 £'000	Company 31 March 2019 £'000
Loans	11,728	10,645	–	–
Loans to related parties	–	–	24	29
	11,728	10,645	24	29
Finance leases	1,087	1,807	–	–
	12,815	12,452	24	29

Current loans and finance leases are stated after including provisions of £1,756,000 for impairment (2019: £955,000).

The gross amounts receivable by the Group under finance lease contracts are shown below:

	31 March 2020		31 March 2019	
	Minimum lease payments £'000	Present value of minimum lease payments £'000	Minimum lease payments £'000	Present value of minimum lease payments £'000
Gross amounts receivable:				
More than one year, less than five	2,092	1,600	2,668	2,294
Less than one year	1,862	1,087	2,374	1,807
	3,954	2,687	5,042	4,101
Less: unearned finance income	(437)	–	(604)	–
	3,517	2,687	4,438	4,101

There were no finance lease receivables in respect of the Company (2019: nil).

Notes to the financial statements / continued

The provision for impairment of loans and finance leases, which has been assessed as explained in note 3(c), comprises the following:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 31 March 2020				
Loans	501	21	1,277	1,799
Finance leases	317	–	479	796
Provision for impairment	818	21	1,756	2,595
At 31 March 2019				
Loans	142	1	755	898
Finance leases	111	2	200	313
Provision for impairment	253	3	955	1,211

The provisions for impairment on loans and finance leases classified as Stage 3, which are assessed individually by management, include provisions made for arrears on these agreements.

The table below shows an analysis of movements in the provision for impairments under IFRS 9, together with the coverage provided by the provisions held.

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2020 Total £'000
As at 1 April 2018	254	5	837	1,096
Movement in provision for impairment				
Transfer to Stage 2	(3)	3	–	–
Transfer to Stage 3	(10)	(5)	15	–
Specific provisions	–	–	364	364
New financial assets originated	135	–	–	135
Other financial assets	(123)	–	–	(123)
Write-offs	–	–	(261)	(261)
Total movement in loss allowance	(1)	(2)	118	115
As at 31 March 2019	253	3	955	1,211
Movement in provision for impairment				
Transfer to Stage 2	(20)	20	–	–
Transfer to Stage 3	(45)	(2)	47	–
Specific provisions	–	–	989	989
New financial assets originated	548	–	–	548
Other financial assets	82	–	–	82
Write-offs	–	–	(235)	(235)
Total movement in loss allowance	565	18	801	1,384
As at 31 March 2020	818	21	1,756	2,595
Coverage provided by the impairment provision				
At 31 March 2020	4.16%	9.14%	63.35%[(a)]	11.45%
At 31 March 2019	1.29%	1.75%	53.72%[(a)]	5.64%

(a) Including amounts in arrears.

Notes to the financial statements / continued

21 Trade and other receivables

	Group		Company	
Current assets	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Trade receivables	544	62	–	–
Amounts owed by subsidiaries	-	–	7,410	4,088
Other debtors	2,187	2,125	213	13
Prepayments and accrued income	270	287	93	110
	3,001	2,474	7,716	4,211

22 Cash and cash equivalents

	Group		Company	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Cash at bank	7,219	15,760	5,215	13,136

There was £51,000 (2019: £27,000) restricted cash within the Group cash balance of £7,219,000 (2019: £15,760,000) and no restricted cash within the Company cash balance of £5,215,000 (2019: £13,136,000). The restricted cash within the Group at both 31 March 2020 and 31 March 2019 was held by a subsidiary on behalf of clients.

23 Borrowings, trade and other payables: due within one year

	Group		Company	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Borrowings				
6% Unsecured Convertible Loan Notes 2021	2,050	–	2,050	–
Loans	5,158	7,945	–	–
	7,208	7,945	2,050	–
Trade and other payables				
Trade payables	795	524	81	216
Amounts owed to subsidiaries	-	–	9	1,355
Dividends payable	1	1	1	1
Corporate tax	19	61	–	–
Other taxation and social security	111	98	34	23
Other creditors	295	225	106	–
Accruals and deferred income	2,660	1,802	414	340
	3,881	2,711	645	1,935

Notes to the financial statements / continued

24 Non-current liabilities

	Group		Company	
	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Borrowings				
Preference shares of subsidiary	3,000	3,000	–	–
6% Unsecured Convertible Loan Notes 2021	–	2,050	–	2,050
Loans	59,615	61,056	–	–
	62,615	66,106	–	2,050
Other creditors				
Deferred consideration (a)	149	483	86	483

(a) The deferred consideration comprises contingent consideration of £86,000 (2019: £483,000) in relation to Acorn to Oaks Financial Services Limited (note 15) which is payable by the Company and £63,000 (2019: nil) in relation to Acorn to Oaks Associates Limited (note 27) which is payable by a subsidiary.

25 Deferred tax assets and liabilities

	Group		Company	
Deferred tax liability	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
At 1 April	744	684	–	–
Tax expense	65	60	–	–
At 31 March	809	744	–	–
The deferred tax liability comprises:				
Gains arising from the revaluation of investment properties	1,549	1,416	–	–
Losses	(740)	(672)	–	–
	809	744	–	–

	Group		Company	
Unrecognised deferred tax assets	31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
Differences between tax and accounting base of:				
Capital losses	190	171	190	171
Trading losses	6,967	5,078	–	–
Excess management charges	3,605	2,965	1,340	1,214
Timing differences	(89)	59	2	2
Total	10,673	8,273	1,532	1,387

No deferred tax assets were recognised in the financial statements at 31 March 2020 or 31 March 2019.

Unrecognised deferred tax assets have been calculated on the basis of trading losses and excess management charges carried forward of £55,644,000 (2019: £47,312,000), capital losses of £1,001,000 (2019: £1,003,000) and timing differences of £470,000 (2019: £347,000). There is no time limit for the utilisation of these amounts.

Notes to the financial statements / continued

26 Called-up share capital

Allotted, called up and fully paid	31 March 2020 Number	31 March 2019 Number	31 March 2020 £'000	31 March 2019 £'000
Ordinary shares of £0.02	39,960,551	39,407,263	800	788
Deferred shares of £0.001	3,648,415,419	3,648,415,419	3,648	3,648
			4,448	4,436

The Company did not hold any ordinary shares in treasury at 31 March 2020 (2019: nil). 21,349 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 31 March 2020 (2019: 21,349). The Company did not transfer any shares into or out of the EBT during the year (2019: nil). The fair value of shares held by the EBT at the balance sheet date amounted to £24,000 (2019: £29,000): these are deducted from equity in accordance with note 2.24.

Holders of the Deferred shares have no right to attend, speak or vote at a general meeting of the Company or to receive any dividend or other distribution and have only very limited rights on a return of capital. They are effectively valueless and non-transferable.

On 12 April 2019, the Company raised £500,000 through the issue of 400,000 ordinary shares at £1.25 each for cash. This has been used to support the development of the Group's lending business, including the acquisition of a UK banking licence.

On 13 November 2019, the Company issued 153,288 ordinary shares at £1.35 each in satisfaction of an undertaking in 2017 in relation to the acquisition of the minority interest in Credit Asset Management Limited.

No costs (2019: £178,000) were incurred in relation to the issue of shares in the year. The costs incurred in the prior year were offset against the Company's share premium.

Shares in issue	Deferred Number	Ordinary of £0.02 Number	Deferred £'000	Ordinary £'000
As at 31 March 2018	3,648,425,419	29,205,195	3,648	585
Issued as part consideration on 7 January 2019	–	82,068	–	1
Issued for cash on 28 March 2019	–	10,120,000	–	202
As at 31 March 2019	3,648,425,419	39,407,263	3,648	788
Issued for cash on 12 April 2019	–	400,000	–	8
Issued on 13 November 2019	–	153,288	–	4
As at 31 March 2020	3,648,415,419	39,960,551	3,648	800

Notes to the financial statements / continued

27 Non-controlling interests

	31 March 2020 £'000	31 March 2019 £'000
At 1 April	13	(50)
Profit attributable to non-controlling interests	12	13
Distributions to non-controlling interests	(25)	–
Transferred to equity on reduction of non-controlling interests	–	50
At 31 March	–	13

On 31 March 2020, the Company's wholly-owned subsidiary, Acorn to Oaks Financial Services Limited, increased its shareholding in its subsidiary, Acorn to Oaks Associates Limited, from 51% to 100% for a consideration of £75,100 in cash, of which £100 was paid on completion and £75,000 is payable after three years. The deferred consideration of £75,000 has been recorded at its amortised cost of £63,000, which has been calculated using an effective interest rate of 6%, the Company's current cost of capital. The net assets attributable to the non-controlling interest on 31 March 2020 were less than £1,000. In accordance with IAS 27, the difference of £63,000 between the consideration and the net assets acquired has been included as a movement in equity.

28 Commitments

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

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. Under the terms of the Amended and Restated Shareholders' Agreement dated 21 November 2019, the put option may be exercised by the executives within 30 business days of Recognise receiving TCR confirmation and the Company must purchase their shares within 20 business days of receiving notice of exercise of the put option, provided agreed lock-in agreements with the executives are in place. The required TCR letter was received from the PRA on 21 July 2020 and accordingly it is anticipated the Company will acquire the remaining equity interest in Recognise no later than 30 September 2020. Under the Shareholders' Agreement, if any executive were to leave Recognise as a 'bad leaver' within 15 months of being allotted shares in the Company, a proportion of his shares would be transferred to the Company or another nominated person for £1: the proportion reduces from 100% to nil over the 15 month period.

Under the terms of its acquisition of Acorn to Oaks Financial Services Limited in January 2019, the Company is committed to pay a further earn-out consideration, which is based on a six-times multiple of the average annual profit for the three year period up to 31 March 2022, up to a maximum of £5,000,000. The Company currently estimates that deferred consideration of £100,000 will be payable.

The Company has given a guarantee to a third party in respect of moneys lent to Property & Funding Solutions Ltd whereby the third party will be indemnified by the Company for 50% of any loss of principal it suffers plus any interest accruing thereon and the costs of enforcing the guarantee. All funds from the third party are secured over the property in respect of which the funds were advanced. The amount outstanding to the third party at 31 March 2020 was £862,500.

Notes to the financial statements / continued

29 Related party transactions

The related parties of the Company are its subsidiaries, together with the directors of the Company.

Directors' emoluments are disclosed in the Directors' Remuneration report. The aggregate emoluments of the directors for the year were £557,500 (2019: £461,732). In addition, aggregate social security costs were £66,393 (2019: £53,111). In the current year, all costs were borne by the Company while, in the prior year, £360,000 of the aggregate emoluments and £39,597 of the aggregate social security costs were borne by the Company and £101,732 and £13,514 respectively by a subsidiary. There are no other persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Accordingly, the aggregate amounts payable to directors equate to the aggregate compensation to key management personnel.

The Company has Relationship Agreements with each of its two largest shareholders, DV4 Limited, and Max Barney Investments Limited and Harvey Bard, in respect of themselves and certain other people who are considered to comprise a concert party. Under the terms of the Relationship Agreements, each has undertaken that, subject to certain exceptions, it will conduct all business with the Company on arm's length terms and on a normal commercial basis.

P G Milner is a director of Max Barney Investments Limited.

The Company recharges the costs of shared premises to its subsidiaries, Credit Asset Management Limited, Milton Homes Limited, Property & Funding Solutions Ltd and Recognise Financial Services Limited.

30 Share-based payments

Under the Share Option Plan 2017, share options may be granted to employees, including executive directors, of the Company and its subsidiaries. The exercise price of these fixed price options is equal to the market price of the shares at the date of grant. These options are conditional on the employee completing three years' service (the vesting period). The options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The number of share options granted under the Share Option Plan 2017 that were outstanding at 31 March 2020 are as follows:

Date of grant	At 31/03/19	Granted in year	At 31/03/20	Exercisable from	Exercisable to	Exercise price
05/10/2017	1,000,000	–	1,000,000	05/10/2020	05/10/2027	90.00p
31/07/2018	1,041,379	–	1,041,379	31/07/2021	31/07/2028	145.00p
24/07/2019	–	103,448	103,448	24/07/2022	24/07/2029	145.00p
	2,041,379	103,448	2,144,827			

Notes to the financial statements / continued

The weighted average exercise price of the share options in issue is:

	31 March 2020 Weighted average exercise price	31 March 2020 Number	31 March 2019 Weighted average exercise price	31 March 2019 Number
Outstanding at 1 April	118.06p	2,041,379	90.00p	1,000,000
Granted during year	145.00p	103,448	145.00p	1,041,379
Outstanding at 31 March	119.36p	2,144,827	118.06p	2,041,379

None of the share options were exercisable at 31 March 2020.

City of London Group plc's share price as at 31 March 2020 was 114.0p (2019: 137.5p). The average for the year to 31 March 2020 was 138.2p (2019: 141.1p).

The fixed price options issued in 2018 and 2019 were valued using the Monte Carlo model while the Black-Scholes model was used for those issued in 2017. Inputs to the models were as follows:

	July 2019 Grant	July 2018 Grant	October 2017 Grant
Strike price	145.00p	145.00p	90.00p
Share price	145.00p	145.00p	90.00p
Contractual life (in days)	1,095	1,095	1,095
Volatility	23.20%	26.17%	13.30%
Annual risk-free interest rate	0.41%	0.83%	0.95%

Volatility is a measure of the amount by which the underlying share price is expected to fluctuate during the life of each option. As the shares of the Company have been traded on AIM only since 2017 and the share price has been fairly illiquid since then, its observed volatility is not meaningful for the purpose of either the Monte Carlo or Black-Scholes models. For the Monte Carlo model, the observed median volatility from a basket of listed peers of the Company was used to provide a meaningful proxy for volatility. The FTSE All-Share 3-year volatility index was used for the Black-Scholes model. The valuation assumes that all the options will be exercised.

The Company would use the shares in the Employee Benefit Trust to cover part of the share option awards.

The put and call option arrangements which the Company has over the equity interest held by three executives of Recognise Financial Services Limited are accounted for as a share-based payment (see note 18(a)).

Notes to the financial statements / continued

31 Changes in liabilities arising from financing activities

Group	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2018	65,494	9,331	74,825
Cash flows	17,298	(22,060)	(4,762)
Non-cash flow			
Non-current borrowings becoming current borrowings	(20,674)	20,674	–
Interest accrued in period	3,988	–	3,988
At 31 March 2019	66,106	7,945	74,051
Cash flows	(420)	(7,747)	(8,167)
Non-cash flow			
Non-current borrowings becoming current borrowings	(6,998)	6,998	–
Lease liabilities	425	309	734
Interest accrued in period	3,928	1	3,929
At 31 March 2020	63,041	7,506	70,547

Company	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2018	–	1,555	1,555
Cash flows	2,050	–	2,050
Non-cash flow			
Amount owed to subsidiary settled by receipt of dividend	–	(269)	(269)
At 31 March 2019	2,050	1,286	3,336
Cash flows	–	(1,193)	(1,193)
Non-cash flow			
Non-current borrowings becoming current borrowings	(2,050)	2,050	–
Lease liabilities	425	309	734
Amount owed to subsidiary settled on the winding up of the subsidiary	–	(105)	(105)
Interest accrued in period	1	1	2
At 31 March 2020	426	2,348	2,774

Notes to the financial statements / continued

32 Financial instruments

The Company's and the Group's financial instruments comprise financial assets – equity release plans, other investments, trade debtors and other receivables, cash and cash equivalents and trade and other payables. In addition, the Company holds Deep Discount Bonds issued by its wholly-owned subsidiary, Milton Homes Limited. The following tables analyse the Group and Company's financial assets and financial liabilities in accordance with the categories of financial instruments in IFRS 9. Assets and liabilities outside the scope of IFRS 9 are not included in the table below.

	Group		Company	
	31 March 2020 £'000	**31 March 2019 £'000**	**31 March 2020 £'000**	**31 March 2019 £'000**
Financial assets				
Measured at fair value through profit and loss				
Financial assets – equity release plans	30,343	30,485	–	–
Deep discount bonds	–	–	9,051	9,627
Other investments – unlisted security	–	8	–	8
Measured at amortised cost				
Right-of-use assets	650	–	650	–
Loans	15,321	14,612	24	29
Finance leases	2,687	4,101	–	–
Trade receivables	544	62	–	–
Amounts owed by subsidiaries	–	–	7,410	4,088
Other debtors	2,187	2,125	213	13
Cash and cash equivalents	7,219	15,760	5,215	13,136
Measured at fair value through other comprehensive income				
Legal case investments	–	130	–	130
	58,951	67,283	22,563	27,031
Financial liabilities				
Measured at amortised cost				
6% Unsecured Convertible Loan Notes 2021	2,050	2,050	2,050	2,050
Other interest-bearing loans	67,773	72,001	–	–
Lease liabilities	724	–	724	–
Deferred consideration	149	483	86	483
Trade payables	795	524	81	216
Other creditors	295	225	106	–
Amounts owed to subsidiaries	–	–	9	1,355
Dividends payable	1	1	1	1
Accruals and deferred income	2,660	1,802	414	340
	74,447	77,086	3,471	4,445

At 31 March 2020 and 31 March 2019, the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances and other balances with related parties which are short term or repayable on demand are equivalent to their carrying amount.

Notes to the financial statements / continued

32 Financial instruments continued

The fair value of the Financial assets – equity release plans is based on the estimated equity owned percentage of the properties upon the Group taking vacant possession, the fair value of the properties at the balance sheet date, assuming vacant possession, less a discount to take account of the risk of the realisation of these interests as set out in note 3. The fair value of other non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The carrying amount of the Group's non-current advances to related parties fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the Group's non-current fixed interest rate advances and bank borrowings at the end of the reporting periods is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable but other significant inputs are not observable and accordingly these fair value estimates have been categorised as Level 3 within the fair value measurement hierarchy required by IFRS 7, 'Financial Instruments: Disclosures'.

The fair value of the 6% Unsecured Convertible Loan Notes 2021 issued in March 2019 approximates to their issue price of £2,050,000 as the appropriate interest rate to apply in discounting future contractual cash flows would be close to 6%.

33 Financial risk management

The financial risks faced by the Company include market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks. Neither the Company nor the Group uses derivative financial instruments for trading purposes.

(i) Credit risk

Credit risk is the risk of the financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The scale of risk to the Group is set out in the table below:

	31 March 2020 £'000	31 March 2019 £'000
Loans	15,321	14,612
Leases	2,687	4,101
Trade and other receivables	3,001	2,474
Cash and cash equivalents	7,219	15,760
Total	28,228	36,947
being:		
Gross amounts	30,823	38,158
Provision for impairment	(2,595)	(1,211)
Total	28,228	36,947

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer loan, lease or receivable. Each new customer is analysed individually for creditworthiness before payment is made. The conduct of customer accounts is reviewed regularly. The credit risk has increased due to the COVID-19 pandemic and this is reflected in the allowance for impairment that was made as at 31 March 2020 (see note 20).

Loans and leases are made predominantly to commercial SME clients and to professional firms. Property bridging loans are secured over the property for which the loan is advanced and personal guarantees are also obtained. Other loans are unsecured but benefit from personal guarantees as management considers necessary.

The Group establishes an allowance for impairment on the basis set out in note 3.

Notes to the financial statements / continued

Receivables include the following that are wholly or partly in arrears:

	31 March 2020 £'000	31 March 2019 £'000
Loans	2,622	1,359
Leases	856	460
	3,478	1,819
Provisions made in respect of above	1,756	955

Receivables wholly or partly in arrears include arrears of £1,915,000 (2019: £1,432,000), of which £1,513,000 (2019: £1,128,000) was more than 90 days in arrears.

The Group limits its credit exposure to cash and cash equivalents by depositing funds only with UK High Street banking institutions.

(ii) Foreign exchange risk

The foreign exchange risk for the Group is immaterial as the financial instruments held by the Group are largely denominated in sterling.

(iii) Liquidity risk

The Company has sufficient cash to meet its current requirements. At 31 March 2020 and 31 March 2019, the Company did not have a bank overdraft facility.

The total gross contractual undiscounted cash flows of financial liabilities, including interest payments, excluding those arising under the loan facility provided by Partnership Life Assurance Company Limited to Milton Homes Properties Limited, are:

Year ended 31 March 2020	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	1,424	6,361	6,116	–	13,901
Trade and other payables	–	3,751	–	–	–	3,751
Lease liabilities		83	247	435	–	765
	–	5,258	6,608	6,551	–	18,417
Company						
Interest-bearing borrowings	–	31	2,057	100	–	2,188
Trade and other payables	–	611	–	–	–	611
Lease liabilities		83	247	435	–	765
	–	725	2,304	535	–	3,564

Notes to the financial statements / continued

33 Financial risk management continued

Year ended 31 March 2019	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	2,345	6,349	9,932	–	18,626
Trade and other payables	–	2,711	–	–	–	2,711
	–	5,056	6,349	9,932	–	21,337
Company						
Interest-bearing borrowings	–	1,391	92	2,296	–	3,779
Trade and other payables	–	580	–	–	–	580
	–	1,971	92	2,296	–	4,359

Partnership Life Assurance Company Limited has provided a £62,633,796 facility to Milton Homes Properties Limited, which bears interest at 7.15% per annum and is secured on the Group's rights to beneficial interests in residential properties acquired through equity release plans. The interest is rolled up into the loan, and a proportion of the loan and accumulated interest is repayable on disposal of each property and/or equity release plan asset, with the balance repayable in full on the earlier of 8 November 2065 and the date when the last property or equity release plan asset is disposed of. The amount owed on this loan as at 31 March 2020 was £57,087,000 (2019: £57,111,000).

The repayment dates of financial liabilities are as follows:

Year ended 31 March 2020	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	1,244	5,964	5,677	57,087	69,972
Trade and other payables	–	3,751	–	–	–	3,751
Lease liabilities	–	74	224	426	–	724
	–	5,069	6,188	6,103	57,087	74,447
Company						
Interest-bearing borrowings	–	–	2,050	86	–	2,136
Trade and other payables	–	611	–	–	–	611
Lease liabilities	–	74	224	426	–	724
	–	685	2,274	512	–	3,471

Year ended 31 March 2019	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	2,116	5,829	8,995	57,111	74,051
Trade and other payables	–	2,711	–	–	–	2,711
	–	4,827	5,829	8,995	57,111	76,762
Company						
Interest-bearing borrowings	–	1,355	–	2,050	–	3,405
Trade and other payables	–	580	–	–	–	580
	–	1,935	–	2,050	–	3,985

Notes to the financial statements / continued

(iv) Interest rate risk

The Company has interest-bearing assets and liabilities at fixed interest rates. The Group and Company had no floating rate borrowings at either 31 March 2020 or 31 March 2019. Accordingly, the results before tax of the Group and Company would be unaffected by any change in the Bank of England rate in either year.

(v) Price risk

The Group is subject to price risk on both its investment properties and its financial assets – equity release plans. 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. 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.

Following a re-assessment of the fair values of the items included in Other investments, full provision has been made against the cost in view of uncertainty on both the timing and amount of any realisations. The provision for impairment of the legal case investments has been charged to Other comprehensive income.

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 table presents the Group's assets that are measured at fair value at 31 March 2020:

Level 3 valuation	**Total £'000**
Investment properties	38,609
Financial assets – equity release plans	30,343
	68,952

The following table presents the Group's assets that are measured at fair value at 31 March 2019:

Level 3 valuation	**Total £'000**
Investment properties	41,040
Financial assets – equity release plans	30,485
Other investments	138
	71,663

No Level 1 or Level 2 assets were held at either 31 March 2020 or 31 March 2019.

There were no transfers of assets between categories during the year (2019: none). An asset is transferred when, due to changes in circumstances, it falls into another category within the fair value hierarchy.

Notes to the financial statements / continued

33 Financial risk management continued

The movement on level 3 assets is as follows:

	31 March 2020 £'000	31 March 2019 £'000
Balance at 1 April	71,663	75,277
Additions	42	83
Equity transfer	1,367	1,497
Revaluations	1,443	2,282
Disposals	(5,563)	(7,476)
Balance at 31 March	68,952	71,663

(vi) Capital Management

The primary objective of the Company's capital management is to ensure that it has sufficient funding capacity for itself and to support the development of its existing businesses as well as progress the application for a UK banking licence and, should the application be successful, establish a business that will meet the needs of the SME UK business market. The Board assesses the Group's future capital and liquidity requirements regularly and, within its overall group strategy, is developing plans to access new funding as required. The Company seeks to optimise the mix of debt and equity funding sources to maintain the balance of a robust financial structure whilst creating shareholder value through an appropriate debt equity mix of the Company and the subsidiaries. The Company's capital is deemed to be its equity.

Debt equity ratio of the Company is shown below:

	31 March 2020 £'000	31 March 2019 £'000
Third-party borrowings	2,050	2,050
Loans from subsidiaries	–	1,286
Debt	2,050	3,336
Equity	31,283	37,475
Gearing	6.6%	8.9%

34 Net asset value

The consolidated net asset value per share is calculated by dividing the equity attributable to owners of the Company excluding the equity instrument by the number of ordinary shares in issue at the year-end less those held in treasury and in the Employee Benefit Trust (see note 26).

	31 March 2020	31 March 2019
Equity attributable to owners of the Company excluding the equity instrument (£'000)	23,773	32,868
Number of ordinary shares in issue ('000)	39,939	39,386
Consolidated net asset value per share	60p	83p

Notes to the financial statements / continued

35 Post balance sheet events

(a) At a general meeting on 27 April 2020, shareholders approved the buy back and cancellation of the Deferred shares of the Company in accordance with the Articles of Association, whereby all the Deferred shares could be purchased by the Company for a consideration of not more than £1.00 and subsequently cancelled. Under the Companies Act a share buy-back by a public company (such as the Company) can only be financed through distributable reserves or the proceeds of a fresh issue of shares made for the purpose of financing a share buy-back. As the Company currently has no distributable reserves, the purchase of the Deferred shares for £1.00 was financed from the issue of 500 new ordinary shares which were allotted to the Trustees of the Employee Benefit Trust at a price of 114.4p each on 16 April 2020. Following the cancellation of the Deferred shares on 30 April 2020, a transfer of £3,648,415 was made from share capital to a capital reserve.

(b) On 21 July 2020, Recognise received its TCR letter from the PRA. The receipt of this letter, which sets out the PRA's capital and liquidity requirements for Recognise, is an important milestone in its application for a UK banking licence.

(c) In accordance with their terms of issue, the receipt of the TCR letter on 21 July 2020 resulted in the mandatory conversion of the £2,050,000 6% Convertible Unsecured Loan Notes 2021 ('Loan Notes') into ordinary shares of the Company. The Loan Notes were converted into shares at a ratio of one new ordinary share for every £1.43 of outstanding principal of Loan Notes, with 1,433,565 shares being issued to the Loan Note Holders. Interest accrued on the Loan Notes up to 21 July.

(d) Following the receipt of the TCR letter on 21 July 2020, the executives who hold 28% of the equity in Recognise may exercise their put option on or before 1 September under the terms of the Recognise Shareholders' Agreement (see note 28). The Company would then be required to purchase their shares for a consideration of up to £5,600,000, which will be satisfied by the issue of ordinary shares.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained on the website.

By order of the Board

Colin Wagman

Chairman

17 August 2020

Independent Auditor's report

Opinion

We have audited the financial statements of City of London Group Plc ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 March 2020 which comprise Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flows, Company Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the Directors' confirmation set out on page 12 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement as set out on page 88 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the Directors' explanation as set out in the annual report and accounts as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's report / continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How We Addressed the Key Audit Matter in the Audit
Revenue recognition (note 2.21 & 4) The group's revenues are derived primarily from profits arising on investment properties and financial assets – equity release plans, interest income, arrangement and other fees, including commission. We considered the revenue recognition for interest income and equity release to be key audit matters as noted below. Interest income Interest on the loans and leases portfolio is recognised on an accruals basis using the effective interest rate method. Income is based on the automatic calculations within the group's loans and leases system. There is a risk that income could be incomplete or inaccurate if the loans and leases system has not captured or calculated the revenue correctly. Equity release Revenue from the equity release business primarily relates to gains on disposals and revaluations of the underlying properties. There is a risk that the investment properties and equity release plans are incorrectly valued as there is judgement associated with the assumptions used in the revaluation of the Group's share of interest in the properties.	Our audit testing included but was not restricted to: Interest income: • With the aid of computer assisted audit techniques we recalculated the total interest income on the full portfolio of loans and leases. This included verification of the internal rate of return (IRR) used in the effective interest rate accounting through recalculation. • We tested the accuracy and existence of data processed through the system using sampling techniques for agreeing sampled data to underlying agreements. Equity release Our audit work on revenue was linked to the work undertaken in the valuation of interests in property portfolio risk below. Our audit work included specific testing on the % share for all properties and we also reconciled the movements in the year for 100% of properties. Gains on revaluation of investment properties and equity release assets, equity rate transfer and profit on disposal are included within group revenue and are derived from the year-end valuation and movements in the underlying portfolio in the year, which we have performed work on as outlined below. In respect of the disposals of investment property, these were verified by agreeing to supporting documentation such as completion statements, signed sale agreements and to bank statements. Key observations: Based on our procedures performed, we did not identify any matters which would indicate that revenue is not appropriately recognised in accordance with the requirements of applicable accounting standards.

Independent Auditor's report / continued

Valuation of interests in property portfolio (note 2.8, 2.9, 13 & 14) Investment property and equity release plans are the largest balances on the Group's balance sheet. The valuation of the interest in the properties within the portfolio inherently involves a large degree of judgement and estimation. Significant judgements are made by management and by third party experts thus resulting in the increased risk that the interest in the property portfolio may be materially misstated. As disclosed in note 3(a) to the financial statements, as required by RICS, the valuer has included a paragraph in his report that explains that as a result of the impact of the outbreak of the Novel Coronavirus (COVID 19) on the market, less certainty, and a higher degree of caution, should be attached to the valuation than would normally be the case.	We responded to this matter by: • Engaging with internal experts to assist in the assessment of the valuation methodology applied by management's expert and the assumptions used by management in the valuation process. We assessed the competence of management's expert and also challenged them directly on the assumptions used within the valuations, including house price inflation, discount rate and life expectancy figures, obtaining explanation, justification and corroborative data where relevant. • We tested the integrity of data within the valuation workings, agreeing a sample of items to underlying source documentation to check accuracy, in addition to performing an assessment on the application of formulae used in the valuations. • We discussed the statement included by the valuer around the impact of Novel Coronavirus (COVID 19) on the valuations with the valuer. Key observations: Based on our procedures performed, we consider the Valuation of interests in property portfolio to be reasonable.
Loan loss provisioning (note 2.10, 3(c) & 33) Commensurate with the activities of the Loan and Leases business, the Expected Credit Loss (ECL) provision is a material balance subject to management judgement and estimation, calculated through new methodology due to the implementation of IFRS 9. Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include, but are not limited to: • Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; • Completeness and accuracy of data used to calculate the ECL; and • Inputs and assumptions used to estimate the impact of multiple economic scenarios.	We responded to this matter by performing the following: • Performed an assessment of management's interpretation of requirements of IFRS 9 including their definition of key model inputs such as 'default' and 'significant increase in credit risk'. • Challenged, sensitised and corroborated inputs to the expected credit loss model, including assessment of inputs, the staging of the assets and data being used to generate probability of default and loss given default figures, taking into account market conditions and customer specific conditions in light of the COVID 19 situation. • Reviewed and challenged management estimates and judgements by benchmarking to external sources and linking back to the assumptions used in the going concern assessment to check that the impact of COVID 19 has been taken into account on the IFRS 9 ECL model and overlay calculations. • Recalculated key functions of the expected credit loss model using computer assisted audit techniques and performed data integrity assessments, including sampling inputs back to underlying supporting documentation. • Assessed the disclosures included in the financial statements. Key observations: Based on our procedures performed, we consider the provision to be reasonable.

Independent Auditor's report / continued

Going concern and COVID 19 (note 2.1) The emergence and spread of Coronavirus has had an effect on business and markets around the world. In assessing whether the entity is a going concern management is required to take into account all available information about the future including the implications of COVID 19 effects on their operations, for a period of at least 12 months from the date when the financial statements are authorised for issue. Management have considered the base and stress scenarios which included assumptions about the potential impact a prolonged recession due to COVID 19 could have on loan loss provision and in parallel revenue recognition during this period. During the finalisation of the financial statements the potential impact of COVID 19 has been significant and has led to disruption in financial markets, and severe curtailment and restrictions to normal patterns of business both within the United Kingdom and globally. Management have performed an assessment of the potential impact of COVID 19 on the Company's operations and performance. This has required management to make judgements as to the reasonably foreseeable impacts of COVID 19. In making those judgements, management has taken into account the significant uncertainty as to the impact both on the wider economy and on the markets in which the Company trades and therefore the COVID 19 pandemic is a key audit matter.	We responded to this matter by performing the following: We made enquiries of management to understand the impact of COVID 19 on the Group's financial performance, business activities and operations. We assessed the relevant scenarios included in managements going concern assessment by performing the following: • Evaluated management forecasts and challenged the assumptions and predicted outcomes by benchmarking against analysis undertaken on expected sector performance and also against market performance post year end. We considered the most likely and worst case scenarios testing undertaken by management to support the going concern assessment which included assumptions about the potential impact a prolonged recession due to COVID 19 could have on cash flow, revenue and possible cost saving measures. • Reviewed post year end performance against forecasts to understand what scenario the business is currently tracking. • We assessed the potential impact of COVID 19 on the IFRS 9 ECL model on the loan loss provision as described above. • We also reviewed management's assessments on the potential impact of COVID 19 in their assessment of Impairment of assets, including investments at year end by linking in the assumptions in the impairment reviews back to the work on going concern. We reviewed the adequacy of disclosures in the financial statements against management's assessments. Key observations: Our observations are set out in the Conclusions relating to principal risks, going concern and viability statement section above.

Independent Auditor's report / continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to different levels of materiality, the quantum and purpose of which are tabulated below.

Work performed on subsidiaries was performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. Component materiality ranged from £12,400 to £1,002,000 (31 Mar 19: £6,050 to £1,124,000).

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality (1% of total Group assets)	Assessing whether the financial statements as a whole present a true and fair view.	• A principal consideration for users of the financial statements in assessing the financial performance of the group given the group is that of an investment group.	£1,004,160 (31 Mar 19: £1,124,000)
Specific materiality – all income statement based transactions and the relevant associated balance sheet items excluding fair value movements of investments (1% average of last three years expenses – last year on 3% of average last 3 years losses)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	• Level of expenses	£100,000 (31 Mar 19: £95,000)
Performance materiality (75% of financial statement materiality)	Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.	• Financial statement materiality • Risk and control environment • History of prior errors	£753,000 (31 Mar 19: £843,000) Specific: £78,750 (31 Mar 19: £72,000)
Parent company materiality (2% of parent company profit before tax averaged over last three years)	Assessing whether the financial statements of the parent company as a whole present a true and fair view.	• A principal consideration for members of the company in assessing the financial performance of the company given the activities of the company in the year.	£20,000 (31 Mar 19: £37,000)

Independent Auditor's report / continued

We agreed with the Audit Committee that we would report to them all audit differences in excess of £21,000 and £1,900 for Group and Company respectively, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Group's activities, and the overall control environment. Based on this understanding we assessed those aspects of the Group's transactions and balances which were most likely to give rise to a material misstatement.

The group operates though a number of operating subsidiaries, all of which are based in the UK. Full scope audits were undertaken by the group audit team on the financial information of the parent company and all components.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 25** – the statement given by the Directors that they consider the annual report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 24-25** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Independent Auditor's report / continued

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic report and Directors' report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
17 August 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Notice of Annual General Meeting

NOTICE IS GIVEN that the Annual General Meeting of the Company will be held at 3.30 pm on 30 September 2020 at the office of the Company at The Royal Exchange, First Floor, 1 Royal Exchange Steps, London EC3V 3DG to consider the following resolutions of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

In light of the UK Government's social distancing guidelines associated with the COVID-19 pandemic restricting public gatherings, physical attendance at the Company's AGM will not be permitted. The AGM will be held with a quorum of members only present at the physical location, supplemented by way of a videoconference allowing shareholders to dial into the AGM at which time they can submit questions to the Board. Shareholders wishing to access the videoconferencing facility or submit questions to the Board ahead of the meeting are asked to contact the Company Secretary (Ben.Harber@shma.co.uk). Please note that it will not be possible to vote on the matters to be considered at the AGM through videoconferencing facility, shareholders are encouraged shareholders to vote electronically, or to appoint the Chair as their proxy with their voting instructions.

1. To receive the annual report and accounts for the year ended 31 March 2020.
2. To re-elect Andrew Crossley as a director of the Company.
3. To re-elect Michael Goldstein as a director of the Company.
4. To re-elect Paul Milner as a director of the Company.
5. To re-elect Colin Wagman as a director of the Company.
6. To re-elect Lorraine Young as a director of the Company.
7. To reappoint BDO LLP ("BDO") as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the directors to determine their remuneration.
8. That, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company. This authority will, if granted, expire, unless previously revoked, renewed or varied, at the conclusion of next year's AGM, or, if earlier, on 30 September 2021, although offers or agreements can be made before the expiry of that period, which might require shares to be allotted or rights granted after the expiry of that period. This authority, if approved, will be limited to a maximum nominal amount of £1,000,000, representing a maximum of 50,000,000 ordinary shares of 2 pence each, equivalent to approximately 120 per cent of the issued capital of the Company as at 17 August 2020. As stated in the Chairman's statement, the directors believe that they should have the authority proposed in the resolution to enable such allotments to take place to allow the Company to raise sufficient new equity to finance the business opportunities if a banking licence is obtained.

Special Resolutions

9. That, subject to the passing of resolution 8 above, the directors be empowered under section 570 of the Act to allot equity securities, as defined in section 560 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment or allotments of equity securities up to a nominal amount or (in the case of any other equity securities) giving the right to subscribe for or convert into relevant shares having a nominal amount, not exceeding in aggregate £1,000,000 and this power shall expire, unless previously revoked, renewed or varied, at the conclusion of the next Annual General Meeting of the Company or on 30 September 2021, whichever is earlier, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot securities under such offer or agreement as if this power had not expired.

Notice of Annual General Meeting / continued

10. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) on the London Stock Exchange subject to the following conditions:
    (i) the maximum number of ordinary shares authorised to be purchased shall be 4,139,461;
    (ii) the minimum price which may be paid for a share shall be the nominal value of such share and the maximum price which may be paid shall be not more than 5 per cent above the average of the middle market quotations for ordinary shares of the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding that on which such market purchases are made (in each case exclusive of expenses);
    (iii) unless previously revoked, renewed or varied, the authority conferred by this resolution shall terminate on the conclusion of the next Annual General Meeting of the Company or 30 September 2021, whichever is the earlier, and
    (iv) the Company may make a contract to purchase ordinary shares under this authority prior to the expiry of such authority which may be or will be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares under such contract notwithstanding such expiry.

By order of the Board

Ben Harber
Company Secretary
4 September 2020

Registered office
60 Gracechurch Street
London EC3V 0HR

Notice of Annual General Meeting / continued

Notes:

1. An explanation of the proposed resolutions can be found in the Directors' report on pages 32 and 33.
2. If you are a member entitled to attend and vote at the meeting, you may appoint one or more proxies to attend and vote on your behalf. A proxy need not be a member of the Company. If you appoint a proxy it will not prevent you from attending the meeting and voting in person. In light of the UK Government's social distancing guidelines associated with the COVID-19 pandemic restricting public gatherings, physical attendance at the Company's AGM will not be permitted. The Company encourages shareholders to appoint the Chair as their proxy with their voting instructions.
3. Shareholders are entitled to appoint another person as a proxy to exercise all or part of their rights to attend and to speak and vote on their behalf at the Meeting. A shareholder may appoint more than one proxy in relation to the Meeting provided that each proxy is appointed to exercise the rights attached to a different ordinary share or ordinary shares held by that shareholder. A proxy need not be a shareholder of the Company.
4. If your shares are held in joint names, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
5. Any corporation which is a member may appoint one or more corporate representatives to exercise all of its powers as a member, on its behalf, provided that not more than one corporate representative may exercise powers over the same shares.
6. You can vote either:
   - by logging on to www.signalshares.com and following the instructions;
   - You may request a hard copy form of proxy directly from the registrars, Link Asset Services, on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.
   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

   In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours (excluding non-working days) before the time of the meeting.
7. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged.
8. If you have been sent a copy of this notice because you have been nominated to have information rights under the Act by a nominee shareholder who holds shares on your behalf (and therefore your shares are not held in your own name) then you do not have the right to appoint a proxy directly. However, you may have a right under an agreement with the registered shareholder to appoint someone else or to be appointed yourself as a proxy for this meeting. If you do not have this right, or if you do not wish to exercise it, you may have a right under such agreement to give instructions to the shareholder as to how they should vote in respect of the shares they hold on your behalf. You should contact the registered shareholder to find out more about any such arrangements.
9. Under Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), you must be on the register of members by the close of business two days before the AGM in order to have the right to attend or vote at the meeting. The number of shares you hold at that time is the number over which you may exercise voting rights at the meeting. Changes to entries on the register of members after that time will be disregarded in determining your right to attend or to vote (and the number of votes you may cast) at the AGM or any adjournment of that meeting.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the GM and any adjournment(s) of it by using the procedures described in the CREST Manual. If you are a CREST personal member or other CREST sponsored member, and/or a CREST member who has appointed a voting service provider(s), you should refer to your CREST sponsor or voting service provider(s), who will be able to take appropriate action on your behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specification and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of GM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

   After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy.

Notice of Annual General Meeting / continued

10. Instructions. It is the responsibility of the CREST member concerned to take or, if you are a CREST personal member or sponsored member or you have appointed a voting service provider(s), to ensure that your sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers, are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulation 2001.
12. You may not use any electronic address provided either in this notice or any related documents (including the form of proxy) to communicate for any purposes other than those expressly stated.
13. As at 17 August 2020 (being the latest practicable date before the publication of this document) the Company's issued share capital consisted of 41,394,616 ordinary shares of 2 pence each, carrying one vote each. There are no shares currently held in treasury. Therefore, the total number of voting rights in the Company at that date was 41,394,616.

Investor information and advisers

Financial calendar

We will hold our 2020 annual general meeting at the office of the Company at The Royal Exchange, First Floor, 1 Royal Exchange Steps, London EC3V 3DG at 3.30 pm on 30 September 2020.

In light of the UK Government's social distancing guidelines associated with the COVID-19 pandemic restricting public gatherings, physical attendance at the Company's AGM will not be permitted. The AGM will be held with a quorum of members only present at the physical location, supplemented by way of a videoconference allowing shareholders to dial into the AGM at which time they can submit questions to the Board. Shareholders wishing to access the videoconferencing facility or submit questions to the Board ahead of the meeting are asked to contact the Company Secretary (Ben.Harber@shma.co.uk). Please note that it will not be possible to vote on the matters to be considered at the AGM through the videoconferencing facility. Shareholders are encouraged to appoint the Chair as their proxy with their voting instructions.

Half-year results (available online only)	December 2020

Share price information

The latest City of London Group plc share price can be found on www.londonstockexchange.com code CIN or via a link from our own website www.cityoflondongroup.com.

Announcements

Company announcements are carried on the Company's website at www.cityoflondongroup.com.

Registered office and general enquiries

6th Floor
60 Gracechurch Street
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EC3V 0HR
Tel: 020 3795 2680
Company number: 01539241
Email: office@cityoflondongroup.com
Website: www.cityoflondongroup.com

Company Secretary

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EC3V 0HR

Auditors

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55 Baker Street
London W1U 7EU

Nominated adviser and broker

Peel Hunt
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EC2Y 5ET

Bankers

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25 Gresham Street
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Registrar and transfer office

For shareholder administration enquiries, including changes of address, please contact:

Link Asset Services Limited
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34 Beckenham Road
Beckenham
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Designed and printed by Perivan 259399

City of London Group

www.cityoflondongroup.com