City of London Group plc

Interim Results for the six months ended 30 September 2020

Contents

TIDM: CIN

30 November 2020

City of London Group plc

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

Results for the six-month period ended 30 September 2020

The Company announces its unaudited interim results for the six-month period from 1 April 2020 to 30 September 2020, along with an update on business developments.

Business developments

- Successful cash raise exercise completed in October, just after the period under review, raising £27m before expenses. The moneys have been invested in Recognise to facilitate its development and hence achieve the Group's strategic goals.

- Recognise achieved a major milestone when it received authorisation with restriction from the PRA with effect from 10 November 2020. It is applying to change its name from Recognise Financial Services Limited to Recognise Bank Limited.

- Recognise is now working to complete the development and testing work necessary to position it to receive a full banking licence, with a target to achieve this in the first half of 2021. The full banking licence will also be dependent on a further capital raise.

- Recognise is offering four lending products from November - bridging and working capital loans, loans to the professional practice community and commercial property loans, with the full operational lending capability coming on stream in April 2021.

- The external valuation of the Milton Homes properties as at 30 September 2020 at £68.7m reflects the removal of uncertainties surrounding COVID-19 that depressed the March valuation and the renewed activity in the UK residential property market.

Financial results

- Loss before tax £2.6m after absorbing costs of £2.8m associated with the UK banking licence application (2019/20 first half loss before tax £3.3m after absorbing costs of £1.3m associated with the UK banking licence application).

- Milton Homes made a profit of £1.5m before shareholder capital charges reflecting both higher marketability ratings used by the external valuer in his September valuation and an increased number of reversions (2019/20 first half loss of £1.2m due to the low change in the house price index in that period)

- Consolidated NAV per share attributable to shareholders 49p (31 March 2020: 60p)

Michael Goldstein, Chief Executive Officer, commented:

"We are delighted that our Recognise subsidiary achieved a major milestone when it received authorisation with restriction from the PRA with effect from 10 November. It is now progressing with further development and testing work on its systems with a target to obtain a full banking licence in the first half of 2021. Following our successful cash raise in October, we are well placed to establish and grow the Recognise business, through the strength and depth of its management team.

As Recognise has now begun lending activities, Property & Funding Solutions will wind down its loan portfolio and Recognise will redeploy the funds as loans are repaid.

The run-off of the CAML/PFL loan and lease portfolio is proceeding as expected, with the overall size of the portfolio reducing by approximately a third over the period as loans are repaid.

The results of Milton Homes for the period were pleasing, reflecting both an increase in the number of reversions and the removal of the uncertainties on the future strength of the UK housing market that depressed the March valuation.

COVID-19 adversely affected the commercial finance broking division of Acorn to Oaks as there was little activity in that market in the first half of the year although there are now signs of improvement which should benefit the second half.

Overall, looking forward, we are well placed to implement our core strategy of developing a business focusing on the SME market that will deliver value to our shareholders."

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Notes to Editors:

City of London Group plc is quoted on AIM (TIDM: CIN) and is the parent company of a group which is 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.

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Chief Executive Officer’s review

I am pleased to present this review which covers the period from 1 April 2020.

Business review

I am delighted to report that Recognise reached a major milestone on 10 November 2020. It was authorised with restriction by the Prudential Regulation Authority (with the consent of the Financial Conduct Authority) with effect from that date. Recognise has now moved to the next stage of its development with the target for achieving a full licence in the first half of 2021. This is a significant achievement for the Recognise management team, which has delivered bank status while operating within strict budgetary limits. The full banking licence will also be dependent on a further capital raise.

This follows the completion of our successful cash raise exercise in October which raised £27 million before expenses, including £25 million from a significant new investor, Parasol V27 Limited. We are pleased to welcome Ruth Parasol and Nyreen Llamas to the Board and look forward to the contribution that both will make as directors. Ruth Parasol has also joined the board of Recognise.

The moneys raised have been invested in Recognise to enable it to implement the next stage of its business plans. Further details of these are given below.

In furtherance of the Group strategy that all new lending will be made through Recognise, Property & Funding Solutions Ltd was transferred from the Company to Recognise in October. Its loan portfolio will run off as loans mature.

The run-off of the loan and lease portfolios of CAML/PFL, which began in March, continued in the period with the overall size of the portfolios reducing by approximately one third over the period.

The effects of the COVID-19 pandemic adversely affected the business of Acorn to Oaks in the half year, as there was little activity in the commercial finance broking sector for much of the period, although there have been recent indications of a gradual increase in activity which should benefit the second half year.

The results of Milton Homes for the period were pleasing, reflecting both an increase in the number of reversions and the removal of the uncertainties on the future strength of the UK housing market that depressed the March valuation.

Recognise Financial Services Limited (“Recognise”)

The achievement of receiving authorisation with restriction by the Prudential Regulation Authority (with the consent of the Financial Conduct Authority) with effect from 10 November 2020 is a major milestone towards implementing the Group’s core strategy to provide UK SMEs with the credit and service they deserve. Recognise has applied to change its name to Recognise Bank Ltd.

The next stage of the process is to complete the build out and testing of the savings infrastructure, live run the new lending capability and back office processes and position Recognise for full licence. The target timetable for achieving full licence and launch of the savings products is the first half of 2021 when Recognise will deliver personal and business savings accounts, with all monies protected by the Financial Services Compensation Scheme (‘FCSC’).

Whilst full operational lending capability will commence in the new financial year, from April 2021, Recognise has decided to accelerate its lending plans and will provide four lending products from November 2020. These will be Bridging and Working Capital loans, loans to the Professional Practice community and Commercial Property loans. There is already deep experience within the business development and credit control teams to support this market engagement and Recognise is well positioned given that it has no legacy exposure or hangover from COVID-19. The senior management team carries the experience of previous crises and is looking forward to helping drive the growth of viable and ambitious SMEs as the UK economy begins to recover. Looking forward, 2021 will see loans for professional landlords and the development of an important asset finance capability.

Recognise will be a relationship-led SME lending bank but supported by the latest cloud-based technologies which will continue to be developed through ongoing investment. The management team is determined to create one of the UK's most digitally enabled banks ensuring that the power this delivers is harnessed for the benefit of the bank and the customer. Technology is a critical enabler but Recognise is committed to ensuring that the human touch always prevails.

Both the Recognise Board and the executive team have been in situ since mid-2019 and the governance arrangements are robust and effective. Ruth Parasol joined the board in October 2020 and, given her extensive business experience, will undoubtedly add significant value and breadth going forward. The governance structure is also underpinned by comprehensive business-wide policies and processes alongside effective oversight from the second line risk function and the third line Internal Audit function which is being undertaken by Deloitte.

The bar to becoming authorised as a new bank in the UK is rightly set at a very high level and the journey to authorisation is complex and demanding with many applicants dropping out along the way. The Recognise team has delivered as promised with the latest news adding yet further momentum to the pace of delivery. Recognise has a high quality, success-focused management team, a modern, versatile lending platform and a savings engine which will be ready to go in 2021 that is being delivered by the industry leader for savings management, Newcastle Strategic Solutions Ltd. Recognise has already commenced lending activities in its own name. Cost control continues to be embedded across the business.

This is a very exciting time for Recognise, its employees, suppliers and other stakeholders, all of whom have contributed in so many different and important ways.

Property & Funding Solutions Ltd ("PFS")

Until the Group placed a hold on all new lending in March 2020 in response to COVID-19, PFS offered short-term property bridging loans for acquisition, refinancing, refurbishment and development to its customers. The market has proved receptive to its loan offering due to its responsiveness, the close relationships built with customers and brokers, and the certainty of delivery of funding. Although the Board's decision to originate all new lending activity through Recognise has resulted in the current PFS loan book entering its run-off phase, bridging lending remains a core Recognise loan product. The PFS business transferred to Recognise in October to act as a seed loan portfolio from which to build Recognise's lending activity and own loan book.

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

£'000	6 months to 30/09/20	6 months to 30/09/19	Year to 31/03/20
Revenue	409	273	631
Operating profit before shareholder capital charges	163	132	282
Profit before tax	44	39	58

The COVID-19 pandemic and resultant lockdown restrictions have impacted the residential and commercial property markets to different degrees since March 2020 as well as the debt funding market as lenders focus more on managing and supporting their existing customers through the current challenges rather than new lending. The PFS loan book has proved resilient with no impairment or losses albeit there has been a need to extend certain loans to give customers more time to deliver their business plan including debt repayment. PFS management continues to maintain regular contact with all of its customers to keep abreast of business plan execution and identify any potential early warning indicators of financial stress.

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

CAML is a business to business provider of debt finance to UK SMEs. Following the Group's decision in March to put a hold on all new lending and originate all lending activity through Recognise, the current CAML and PFL loan portfolios entered their run-off phase where individual loans and leases will continue to maturity but will remain outside Recognise. A number of employees transferred to Recognise as part of the Group's forward recruitment plans.

When the likely effect of the COVID-19 pandemic became apparent in early March 2020, CAML commenced an extensive telephone customer contact programme to determine the extent of the impact on its customers' businesses and their ability to meet payments due to CAML and PFL and, in appropriate circumstances, to support customers through reduced payment, interest only and full capital and interest moratoriums initially for 3 months. This exercise has continued throughout the period to September and has been well received by customers. Moratorium extensions have been offered to businesses in sectors that have been more severely impacted by imposed trading restrictions. The information obtained from early direct customer contacts was used to inform the IFRS 9 provisioning exercise undertaken as at 31 March 2020: the increase in provisions for anticipated bad and doubtful debts made at that time ensured actual provision movements in the reporting period ended 30 September 2020 could be fully absorbed.

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

£'000	6 months to 30/09/20	6 months to 30/09/19	Year to 31/03/20
Revenue	677	1,261	2,035
Operating (loss)/ profit before shareholder capital charges	(134)	42	(1,126)
Loss before tax	(277)	(63)	(1,136)

CAML made an operating loss before shareholder capital charges of £134k (2019: profit of £42k). The results for the six months were adversely affected by one off business restructuring costs following the decision to place the business in formal wind down.

Despite the adverse impacts of COVID-19 CAML completed the full repayment of its block funding facility with Aldermore and has continued to pay down its intra-group loan and Hampshire Trust block funding facility as scheduled as well as meeting its wider business expenditure commitments. This has been due to focussed cash collection and maintaining good cash balances throughout the reporting period. The outstanding combined CAML and PFL loan and lease portfolios have reduced by around one third over this period.

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

Acorn to Oaks is an independent financial services intermediary authorised by the FCA, which focuses on the SME and property markets, providing whole of market broking advice services for general insurance, commercial finance broking, regulated mortgages, protection, pensions and investments.

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

£'000	6 months to 30/09/20	6 months to 30/09/19	Year to 31/03/20
Revenue	380	437	746
Operating loss	(18)	(15)	(36)
Loss before tax	(18)	(15)	(36)

The results for the first six months were disappointing as the commercial finance broking division of Acorn to Oaks has been affected by the COVID-19 pandemic with little activity in the market for much of the period as development activity stalled. There have recently been indications of a gradual recovery and it is hoped some pipeline deals will complete in the second half. The COVID-19 pandemic has also delayed the expansion plans of the general insurance division whose core business, however, has remained stable and, as in past years, has maintained its high client retention rate.

The level of IFA business was stable compared with the previous year while it achieved an increase in the funds under management.

With recent signs of a modest upturn in the levels of activity in both the commercial finance broking and general insurance divisions combined with the fact that the level of IFA business is highest in the final quarter, Acorn to Oaks anticipates an improvement in its results in the second half of the year.

Acorn to Oaks furloughed staff during the period to 30 September and currently has two members of staff on the Flexible furlough scheme.

Milton Homes Limited ("Milton Homes")

Milton Homes, the Group's equity release provider, administers a UK portfolio of home reversion plans, based on either traditional or innovative models. When a property becomes vacant, Milton Homes sells it and distributes the sale proceeds, including any that may be due to the former occupier or their estate. The result is a leveraged exposure to UK House Price Inflation ("HPI") without maturity concentrations given the spread of realisations over multiple years. Milton Homes will not take on any new customers in future but will continue to realise its portfolio as reversions occur.

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

£'000	6 months to 30/09/20	6 months to 30/09/19	Year to 31/03/20
Revenue	3,907	1,394	3,643
Operating profit / (loss) before shareholder capital charges	1,506	(1,194)	(1,679)
Profit / (loss) before tax	1,052	(1,669)	(2,602)

The portfolio, which comprised interests in 458 properties at 30 September 2020, was externally valued at £68.7m as at that date. The valuation of the portfolio, assuming vacant possession, was £90.6m. The number of properties that reverted to Milton Homes during the period was 29 compared with 18 in the previous six months.

The profit for the period reflects the higher marketability ratings used by the external valuer in his September valuation in contrast to the uncertainty in March. In particular, the discount rate applied to vacant properties reverted to its previous rate of 10% compared with the 15% rate used in the March valuation. The results for the period were also improved by the increased number of reversions and the effect of changes in the house price index (up by 2.22% pa in the period compared with an increase of 1.83% in the previous 12 month period), offset by the increase in the time taken to complete sales due to COVID-19 during the shutdown of the property market.

Milton Homes is continuing to see interest in its properties and currently has 32 properties either under offer or on the market with a total sales value of £6.8m. A further 22 properties will shortly be put on the market. While the business is expecting a number of sales to complete over the next few months, it is conscious the UK housing market may be adversely affected by the economic effect of COVID-19 in the medium-term.

Over the six-month period, with the sale of 15 properties, Milton Homes generated cash of £912k after repayment of the Partnership loan.

COLG

During the period, COLG has continued to support the activities and development of the Group's businesses.

On 30 April, following shareholder approval, the Company's Deferred shares were cancelled and a transfer of £3,648,415 made to a capital reserve.

On 7 August, the Company issued 1,433,565 ordinary shares to the holders of the £2,050,000 6% Convertible Unsecured Loan Notes 2021 following their mandatory conversion into ordinary shares at an issue price of £1.43 on the receipt by Recognise of its TCR letter on 21 July 2020.

On 4 September, Recognise became a wholly-owned subsidiary of COLG when the Company issued 5,600,000 ordinary shares at an issue price of 80p to the minority shareholders of Recognise following the exercise of their put option under the terms of the Recognise Shareholders' Agreement.

Risks

The principal risks of the Group are reviewed by the Board, which reviews and agrees policies for managing these risks. The key risks described in the Strategic Report in the 2020 Annual Report are still appropriate.

While the risks associated with the withdrawal of the United Kingdom from the European Union have not to date had a material impact on the Group, an exit at the end of the transition period on unfavourable terms may adversely affect the UK's post COVID-19 recovery and hence impact the Group's businesses. Management is monitoring events relating to Brexit and their potential impact.

The COVID-19 situation continues to be monitored and reported on regularly by management to the Board. There continue to be potential risks arising from COVID-19 that could affect the Group's businesses in future: these potential risks would increase if economic activity in the UK were to be further depressed and affected the SME business sector adversely.

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

- 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.

The working from home measures implemented in March 2020 have remained in place, with appropriate internal controls being maintained throughout the period. In accordance with Government requirements, staff are currently working from home.

The 2020 Annual Report also included information on financial risk management in Notes 32 and 33 of the financial statements.

Outlook

With Recognise having received authorisation with restriction from the PRA with effect from 10 November 2020, the Group is well-placed to achieve its strategic 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. While market conditions remain competitive, the Group believes Recognise, with its strength of management and its focus on developing a relationship-led business supported by cloud-based technologies, is well-placed to serve the SME market.

Michael Goldstein
Chief Executive Officer

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

This half-yearly report has been drawn up and presented with the purpose of complying with English law. Any liability arising out of or in connection with the half-yearly report for the six months to 30 September 2020 will be determined in accordance with English law. The half-yearly results for 2020 and 2019 have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

30 November 2020

Unaudited interim results

Condensed consolidated income statement

	Notes	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
Revenue	2	5,373	3,177	7,055
Cost of sales	2	(147)	(228)	(313)
Gross profit		5,226	2,949	6,742
Administrative expenses	4			
Banking licence application		(2,767)	(1,341)	(3,351)
Provisions for bad and doubtful debts		-	(274)	(1,571)
Other		(2,878)	(2,429)	(6,827)
Other income		71	123	181
Loss from operations		(348)	(972)	(4,826)
Finance expense		(2,322)	(2,426)	(4,834)
Loss before tax		(2,670)	(3,398)	(9,660)
Tax credit/(expense)	5	23	57	(70)
Loss for the period		(2,647)	(3,341)	(9,730)
Profit/(loss) for the period before costs associated with banking licence application		120	(2,000)	(6,379)
Costs associated with banking licence application		(2,767)	(1,341)	(3,351)
Loss for the period		(2,647)	(3,341)	(9,730)
Loss for the period attributable to				
Owners of the parent		(2,647)	(3,349)	(9,742)
Non-controlling interests		-	8	12
Loss for the period		(2,647)	(3,341)	(9,730)
Basic and diluted earnings per share attributable to owners of the parent	7	(6.41)p	(8.42)p	(24.46)p

All the operations in both the six months to 30 September 2020 and the year to 31 March 2020 are continuing.

Condensed consolidated statement of comprehensive income

	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
Loss from continuing operations	(2,647)	(3,341)	(9,730)
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	(2,647)	(3,341)	(9,860)
Total comprehensive expense attributable to:			
Equity holders of the parent	(2,647)	(3,349)	(9,872)
Non-controlling interests	-	8	12
	(2,647)	**(3,341)**	(9,860)

Unaudited interim results

Condensed consolidated balance sheet

	Notes	30/09/20 £'000 (unaudited)	31/03/20 £'000 (audited)	30/09/19 £'000 (unaudited)
Assets				
Non-current assets				
Investment properties	8	37,380	38,609	39,770
Financial assets – equity release plans	9	31,309	30,343	30,440
Intangible assets	10	2,707	2,526	3,584
Property, plant and equipment		171	96	92
Right-of-use assets		509	650	-
Other investments		-	-	138
Loans		2,281	3,593	4,761
Finance leases		1,224	1,600	1,663
Total non-current assets		**75,581**	**77,417**	**80,448**
Current assets				
Loans		9,009	11,728	10,211
Finance leases		743	1,087	1,668
Trade and other receivables		3,675	3,001	2,438
Cash and cash equivalents		5,645	7,219	9,891
Total current assets		**19,072**	**23,035**	**24,208**
Total assets		**94,653**	**100,452**	**104,656**
Current liabilities				
Borrowings		(3,883)	(7,208)	(4,420)
Trade and other payables		(4,594)	(3,881)	(3,043)
Lease liabilities		(307)	(298)	-
Total current liabilities		**(8,784)**	**(11,387)**	**(7,463)**
Non-current liabilities				
Borrowings		(60,145)	(62,615)	(64,645)
Other creditors		(154)	(149)	(497)
Lease liabilities		(270)	(426)	-
Deferred tax liability		(786)	(809)	(687)
Total non-current liabilities		**(61,355)**	**(63,999)**	**(65,829)**
Total liabilities		**(70,139)**	**(75,386)**	**(73,292)**
Net assets		**24,514**	**25,066**	**31,364**
Equity				
Share capital	11	940	4,448	4,444
Share premium	11	57,190	50,799	50,596
Capital reserve	11	3,648	-	-
Equity Instruments		1,293	1,293	1,293
Accumulated losses		(38,557)	(31,474)	(24,976)
Equity attributable to owners of the parent		24,514	25,066	31,357
Non-controlling interests		-	-	7
Total equity		**24,514**	**25,066**	**31,364**

Unaudited interim results

Condensed consolidated statement of changes in equity

	Attributable to owners of the parent company						Attributable to non-controlling interests	
	Equity instrument £'000	Accumulated losses £'000	Capital reserve £'000	Share premium £'000	Share capital £'000	Total £'000	£'000	Total Equity £'000
At 31 March 2020 (audited)	**1,293**	**(31,474)**	**-**	**50,799**	**4,448**	**25,066**	**-**	**25,066**
Loss for the period - continuing operations	-	(2,647)	-	-	-	(2,647)	-	(2,647)
Total comprehensive income	-	(2,647)	-	-	-	(2,647)	-	(2,647)
Contributions by and distributions to owners								
Share-based payments	-	45	-	--	-	45	-	45
Transfer on cancellation of Deferred shares	-	-	3,648	-	(3,648)	-	-	-
Issue of shares to Employee Benefit Trust	-	(1)	-	1	-	-	-	-
Issue of shares on conversion of 6% Convertible Unsecured Loan Notes 2021	-	-	-	2,022	28	2,050	-	2,050
Acquisition of minority interest in Recognise Financial Services Limited on exercise of put option by minority shareholders	-	(4,480)	-	4,368	112	-	-	-
Total contributions by and distributions to owners	-	(4,436)	3,648	6,391	(3,508)	2,095	-	2,095
At 30 September 2020 (unaudited)	**1,293**	**(38,557)**	**3,648**	**57,190**	**940**	**24,514**	**-**	**24,514**

Unaudited interim results

Condensed consolidated statement of changes in equity (continued)

	Attributable to owners of the parent company						
	Equity instrument £'000	Accumulated losses £'000	Share premium £'000	Share capital £'000	Total £'000	Attributable to non-controlling interests £'000	Total Equity £'000
At 31 March 2019 (audited)	1,293	(21,672)	50,104	4,436	34,161	13	34,174
Loss for the period – continuing operations	-	(3,349)	-	-	(3,349)	8	(3,341)
Total comprehensive income	-	(3,349)	-	-	(3,349)	8	(3,341)
Contributions by and distributions to owners							
Share-based payments	-	45	-	-	45	-	45
Issue of shares	-	-	492	8	500	-	501
Distributions to non-controlling interests	-	-	-	-	-	(14)	(14)
Total contributions by and distributions to owners	**-**	45	492	8	546	(14)	532
At 30 September 2019 (unaudited)	1,293	(24,976)	50,596	4,444	31,357	7	31,364
Loss for the period – continuing operations	-	(6,393)	-	-	(6,393)	4	(6,389)
Other comprehensive income							
Valuation loss on fair value of legal case investments	-	(130)	-	-	(130)	-	(130)
Total comprehensive income	–	(6,523)	-	-	(6,523)	4	(6,519)
Contributions by and distributions to owners							
Share-based payments	-	88	-	-	88	-	88
Distributions to non-controlling interests	-	-	-	-	-	(11)	(11)
Acquisition of minority interest	–	(63)	–	–	(63)	–	(63)
Issue of shares	-	-	203	4	207	-	207
Total contributions by and distributions to owners	-	25	203	4	232	(11)	221
At 31 March 2020 (audited)	**1,293**	**(31,474)**	**50,799**	**4,448**	**25,066**	**-**	**25,066**

Unaudited interim results

Condensed consolidated statement of cash flows

	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
Cash flows from operating activities			
Loss before taxation	(2,670)	(3,398)	(9,660)
Adjustments for:			
Depreciation and amortisation	172	17	53
Share-based payments	45	45	340
Provision for bad and doubtful debts	-	274	1,571
Impairment of goodwill	117	78	1,555
Impairment of other investments	-	-	8
Investment properties and equity release plan financial assets:			
Increases in the fair value of these assets	(2,857)	(764)	(1,581)
Realised gains on the disposal of these assets	(655)	(289)	(695)
Equity transfer income	(394)	(341)	(1,367)
Interest payable	2,322	2,426	4,834
Changes in working capital:			
(Increase)/ decrease in trade and other receivables	(674)	32	(609)
Increase in trade and other payables	754	227	586
Leases advanced	(6)	(726)	(1,377)
Leases repaid	726	1,476	2,308
Loans advanced	(470)	(12,672)	(20,432)
Loans repaid	4,501	12,058	18,635
Cash generated from/ (used in) operations	**911**	**(1,557)**	**(5,831)**
Corporation tax paid	-	-	(4)
Net cash generated from/ (used in) operating activities	**911**	**(1,557)**	**(5,835)**
Cash flow from investing activities			
Proceeds from the sale of investment properties and equity release plan financial assets	4,169	2,751	6,258
Purchase of investment properties and equity release plan financial assets	-	(42)	(42)
Investment in intangible assets	(299)	(182)	(545)
Purchase of property, plant and equipment	(105)	(33)	(60)
Net cash generated from investing activities	**3,765**	**2,494**	**5,611**

Unaudited interim results

Condensed consolidated statement of cash flows (continued)

	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
Cash flow from financing activities			
Proceeds from issue of ordinary shares	-	500	500
Loans drawn down	294	-	4,395
Repayment of loans	(5,641)	(6,945)	(12,550)
Purchase of CAML Preference Shares	(450)	-	-
Distributions to non-controlling interests	-	-	(25)
Payments of lease liabilities	(164)	-	-
Interest paid	(289)	(361)	(637)
Net cash used in financing activities	**(6,250)**	**(6,806)**	**(8,317)**
Net decrease in cash and cash equivalents	**(1,574)**	**(5,869)**	**(8,541)**
Cash and cash equivalents brought forward	7,219	15,760	15,760
Net cash and cash equivalents	**5,645**	**9,891**	**7,219**
Cash and cash equivalents	5,645	9,891	7,219
Bank overdraft	-	-	-
Net cash and cash equivalents	**5,645**	**9,891**	**7,219**

Changes in liabilities arising from financing activities

	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2020	**63,041**	**7,506**	**70,547**
Cash flows	(3,244)	(2,597)	(5,841)
Non-cash flow			
Conversion of 6% Unsecured Loan Stock 2021	-	(2,050)	(2,050)
Non- current borrowings becoming current borrowings	(1,323)	1,323	-
Interest accrued in period	1,941	8	1,947
At 30 September 2020	**60,415**	**4,190**	**64,605**

Unaudited interim results

Changes in liabilities arising from financing activities (continued)

	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2019	**66,106**	**7,945**	**74,051**
Cash flows	(1,759)	(5,186)	(6,945)
Non-cash flow			
Non- current borrowings becoming current borrowings	(1,661)	1,661	-
Interest accrued in period	1,959	-	1,959
At 30 September 2019	**64,645**	**4,420**	**69,065**
Cash flows	1,339	(2,561)	(1,222)
Non-cash flow			
Non- current borrowings becoming current borrowings	(5,337)	5,337	-
Lease liabilities	425	309	734
Interest accrued in period	1,969	1	1,970'sl
At 31 March 2020	**63,041**	**7,506**	**70,547**

Notes to condensed financial statements

1 Basis of preparation

1.1 These interim financial results do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. Statutory accounts for the year ended 31 March 2020 were approved by the directors on 17 August 2020 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement within the meaning of section 498 of the Companies Act 2006. Reference was made to the inclusion by the external valuer of the Group's interests in the property portfolio as at 31 March 2020 of a paragraph in his report, as required by RICS, which explained 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. As the financial statements incorporate the valuation of interests in the property portfolio made by the valuer as at 30 September 2020, the caveat on the 31 March 2020 valuation no longer applies.

Going concern

The condensed consolidated financial statements have been prepared on a going concern basis which the directors consider 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 directors have reviewed in detail the monthly cash flow forecast for the period to 31 December 2021 and challenged the assumptions in the forecast, having regard to the inherent uncertainties in market conditions, including the potential risks arising from Brexit and the COVID-19 pandemic.

1.2 Accounting policies

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union (the "EU"). The condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2020, which were prepared in accordance with IFRS as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed consolidated financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 March 2020, except for those changes in accounting policies that have been applied with effect from 1 April 2020.

1.3 Adoption of new standards and interpretations

The adoption of new standards is as set out in Note 2.2 of the Annual Report 2020, with the following standards falling to be adopted in the current financial period:

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

These are not expected to impact the Group as they require accounting which is consistent with the Group's current accounting policies and practices.

1.4 Consistency

The interim report, including the financial information contained therein is the responsibility of, and was approved by, the directors on 30 November 2020. The AIM Rules require that accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing annual accounts except where any changes, and the reason for them, are disclosed.

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Notes to condensed financial statements

Continued

1 Basis of preparation (continued)

1.4 Consistency (continued)

There have been no changes to the Group's accounting policies in the period to 30 September 2020. However, several Group companies, which furloughed staff during the period received government grants under the scheme that was set up by the government in response to the COVID-19 pandemic. These grants, which off-set salary costs, have been included in the profit and loss account as a reduction of payroll costs. The total amount received for the period was £84,648.

2 Revenue and cost of sales

Revenue	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
Milton Homes (a)	3,907	1,394	3,643
CAML (b)	677	1,073	2,035
Property & Funding Solutions (c)	409	273	631
Acorn to Oaks (d)	380	437	746
Total revenue	**5,373**	**3,177**	**7,055**
(a) Milton Homes			
Profit on disposal of investment properties	528	197	455
Gain on revaluation of investment properties	1,386	348	1,138
Profit on the disposal of equity release plan financial assets	127	92	240
Gain on revaluation of equity release plan financial assets	1,472	416	443
Equity transfer income arising under equity release plan financial assets	394	341	1,367
	3,907	1,394	3,643
(b) CAML			
Loan and lease interest	675	1,041	1,979
Arrangement fees	2	32	56
	677	1,073	2,035
(c) Property & Funding Solutions			
Property bridging loan interest	368	209	521
Arrangement fees	41	64	110
	409	273	631
(d) Acorn to Oaks			
Commission	247	237	499
Fees	133	200	247
	380	437	746
Cost of sales			
Commissions and introduction fees	147	196	313
Other direct costs	-	32	-
Total cost of sales	**147**	**228**	**313**

All revenue arises in the United Kingdom.

Notes to condensed financial statements

Continued

3 Segmental reporting

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

The Group is managed through its operating businesses: the provision of home release plans to the equity release market, loan, lease and professions financing and the financial services intermediary. The PRA granted a subsidiary, Recognise Financial Services Limited, its authorisation with restriction as a bank on 10 November 2020. Information on the activities of each business is given in the Chief Executive Officer's review. The COLG segment includes the Group's central functions.

Pre-tax profit and loss **6 months ended 30/09/20 (unaudited)**		**Revenue £'000**	**Operating profit/(loss) £'000**	**Finance expense £'000**	**Quasi-equity intra group payments £'000**	**Profit/(loss) before tax £'000**
COLG	Intra-Group	606	927	-	-	927
	Other	-	(1,568)	(58)	-	(1,626)
		606	(641)	(58)	-	(699)
Home reversion plans		3,907	3,440	(1,934)	(454)	1,052
Loan, lease and professions financing						
Asset based finance, commercial and professional loans		677	45	(289)	(33)	(277)
Property bridging finance		409	202	(39)	(119)	44
Banking licence application		-	(2,767)	-	-	(2,767)
Financial services intermediary		380	(16)	(2)	-	(18)
Other		-	(5)	-	-	(5)
Intra-Group		(606)	(606)	-	606	-
		5,373	**(348)**	**(2,322)**	**-**	**(2,670)**

The Loss from operations in the Consolidated income statement is £348,000 as shown above.

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

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Pre-tax profit and loss **6 months ended 30/09/19 (unaudited)**	**Revenue £'000**	**Operating profit/(loss) £'000**	**Finance expense £'000**	**Quasi-equity intra group payments £'000**	**Profit/(loss) before tax £'000**
COLG					
Intra-Group	583	461	(31)	-	430
Banking licence application	-	(35)	-	-	(35)
Other	-	(681)	(93)	-	(774)
	583	(255)	(124)	-	(379)
Home reversion plans	1,394	768	(1,962)	(475)	(1,669)
Loan, lease and professions financing					
Asset based finance, commercial and professional loans	1,073	291	(340)	(14)	(63)
Property bridging finance	273	132	-	(93)	39
Banking licence application	-	(1,306)	-	-	(1,306)
Financial services intermediary	437	(15)	-	-	(15)
Other	-	(4)	-	(1)	(5)
Intra-Group	(583)	(583)	-	583	-
	3,177	**(972)**	**(2,426)**	**-**	**(3,398)**

The Loss from operations in the Consolidated income statement is £972,000 as shown above.

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

Consolidated Net Assets at 30/09/20 (unaudited)

		Total £'000
COLG	Home reversion plans	13,586
	Loan, lease and professions financing	6,141
	Financial services intermediary	1,130
	Banking licence application	12,632
		33,489
	Other net assets	3,677
Net assets per entity balance sheet		37,166
Net liabilities of subsidiary companies and charges to consolidated reserves		(12,652)
Consolidated Net Assets		**24,514**

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Consolidated Net Assets at 31/03/20 (audited)

		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**

Consolidated Net Assets at 30/09/19 (unaudited)

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	17,044	
	Loans, lease and professions financing	7,633	
	Financial services intermediary	1,884	
	Banking licence application project	3,552	
	Other	150	
			30,263
	Other net assets		7,238
Net assets per entity balance sheet			37,639
Other net liabilities of subsidiary companies			(6,275)
Consolidated Net Assets			**31,364**

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

Notes to condensed financial statements

Continued

4 Administrative expenses

	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
Staff costs:			
Payroll expenses	3,883	2,198	5,443
Other staff costs	67	16	43
Establishment costs:			
Property costs	278	295	648
Other	465	478	959
Auditor's remuneration	144	83	301
Legal fees	16	73	192
Consultancy fees	105	231	659
Other professional fees	398	301	750
Provisions for bad and doubtful debts under IFRS 9	-	274	1,571
Provision for goodwill impairment	117	78	1,555
Depreciation and amortisation	172	17	53
Reduction in deferred consideration	-	-	(425)
Total	**5,645**	**4,044**	**11,749**
Expenses relating to:			
Banking licence application project	2,767	1,341	3,351
Provisions for bad and doubtful debts	-	274	1,571
Other administrative expenses	2,878	2,429	6,827
Total	**5,645**	**4,044**	**11,749**

Notes to condensed financial statements

Continued

5 Taxation

	6 months to 30/09/20 £'000 (unaudited)	6 months to 30/09/19 £'000 (unaudited)	Year to 31/03/20 £'000 (audited)
UK corporation tax			
Current year charge	-	-	6
Deferred tax			
Relating to origination and reversal of temporary differences	(23)	(57)	64
Total tax (credit)/ expense	**(23)**	**(57)**	**70**

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

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

6 Dividends

The directors have not declared an interim dividend for the year ending 31 March 2021 (Interim 2020: nil). The directors did not recommend payment of a final dividend for the year ended 31 March 2020.

7 Earnings per share

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

	30/09/20 (unaudited)	30/09/19 (unaudited)	31/03/20 (audited)
Loss attributable to equity holders (£'000)	(2,647)	(3,349)	(9,742)
Weighted average number of ordinary shares of 2p in issue ('000)	41,283	39,760	39,831
Basic and diluted earnings per ordinary share of 2p	(6.41)p	(8.42)p	(24.46)p

The basic and diluted earnings per share are the same as, given the loss for the period, the outstanding share options would reduce the loss per share.

Notes to condensed financial statements

Continued

8 Investment properties

	30/09/20 £'000 (unaudited	31/03/20 £'000 (audited)	30/09/19 £'000 (unaudited)
At 1 April	38,609	44,926	41,040
Additions	-	12	12
Disposals	(2,614)	(3,581)	(1,630)
Revaluations	1,385	1,138	348
At end of period	**37,380**	**38,609**	**39,770**
Investment properties	30,905	33,505	34,174
Investment properties held for sale (a)	6,475	5,104	5,596
	37,380	**38,609**	**39,770**
Numbers of properties			
At 1 April	248	271	271
Disposals	(10)	(23)	(8)
	238	**248**	**263**

(a) On vacant possession having been obtained.

9 Financial assets – equity release plans

	30/09/20 £'000 (unaudited)	31/03/20 £'000 (audited)	30/09/19 £'000 (unaudited)
At 1 April	30,343	30,485	30,485
Additions	-	30	30
Equity transfer	394	1,367	342
On ending of plans	(900)	(1,982)	(833)
Revaluations	1,472	443	416
At end of period	**31,309**	**30,343**	**30,440**
Financial assets – equity release plans	27,459	27,987	27,901
Financial assets – equity release plans held for sale (a)	3,850	2,356	2,539
	31,309	**30,343**	**30,440**
Numbers of properties			
At 1 April	225	239	239
Additions	-	-	-
Disposals	(5)	(14)	(6)
	220	**225**	**233**

(a) On vacant possession having been obtained.

Notes to condensed financial statements

Continued

10 Intangible Assets

	Goodwill £'000	Software licence & development £'000	Total £'000
Cost			
At 31 March 2019	3,558	-	3,558
Additions	-	182	182
At 30 September 2019	3,558	182	3,740
Additions	57	363	420
At 31 March 2020	3,615	545	4,160
Additions	-	299	299
At 30 September 2020	3,615	844	4,459
Accumulated amortisation and impairment			
At 31 March 2019	78	-	78
Charge	78	-	78
At 30 September 2019	156	-	156
Charge	1,477	1	1,478
At 31 March 2020	1,633	1	1,634
Charge	117	1	118
At 30 September 2020	1,750	2	1,752
Carrying amount			
At 30 September 2020 (unaudited)	**1,865**	**842**	**2,707**
At 31 March 2020 (audited)	1,982	544	2,526
At 30 September 2019 (unaudited)	3,402	182	3,584

11 Movements in equity

Allotted, called up and fully paid	**31/09/20 (unaudited) Number**	**31/03/20 (audited) Number**	**31/09/20 (unaudited) £'000**	**31/03/20 (audited) £'000**
Ordinary shares of £0.02	46,994,616	39,960,551	940	800
Deferred shares of £0.001	-	3,648,415,419	-	3,648
			940	4,448

The Company did not hold any ordinary shares in treasury at 30 September 2020 (2020: nil). 21,849 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 30 September 2020 (2020: 21,349). The trustees of the EBT subscribed for 500 ordinary shares at 114.4p each on 16 April 2020: the Company did not transfer any shares into or out of the EBT during the period (2020: nil). The fair value of shares held by the EBT at 30 September 2020 amounted to £21,000 (2020: £24,000): these are deducted from equity.

11 Movements in equity (continued)

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 EBT 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.

On 16 April 2020, the Company issued 500 ordinary shares at 114.4p each for cash to the EBT to enable the Company to proceed with the buy back and cancellation of the Deferred shares. The premium of £562 arising on the issue of the shares was credited to Share premium.

On 7 August 2020, the Company issued 1,433,465 ordinary shares at 143p each to the holders of the £2,050,000 6% Convertible Unsecured Loan Notes 2021, following their mandatory conversion into ordinary shares on the receipt by Recognise of its TCR letter from the PRA on 21 July 2020. The premium of £2,022,000 arising on the issue of the shares was credited to Share premium.

On 4 September 2020, the Company issued 5,600,000 ordinary shares at 80p each to the minority shareholders in Recognise Financial Services Limited who, following the receipt by Recognise of its TCR letter, exercised their put option under the terms of the Recognise Shareholders' Agreement and sold their interest in the equity to the Company. The premium of £4,360,000 arising on the issue of the shares was credited to Share premium. Following the acquisition of these shares from the minority shareholders, the Company increased its shareholding from 72% to 100% and, in accordance with IAS 27, the consideration given for the shares, being the premium arising on consolidation, has been included as a movement in equity.

No costs were incurred in relation to the issue of shares in the period or in the prior year.

Notes to condensed financial statements

Continued

11 Movements in equity (continued)

Shares in issue	Deferred Number	Ordinary of £0.02 Number	Deferred £'000	Ordinary £'000
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
As at 30 September 2019	3,648,425,419	39,807,263	3,648	796
Issued on 13 November 2019	–	153,288	–	4
As at 31 March 2020	3,648,415,419	39,960,551	3,648	800
Issued for cash on 16 April 2020	-	500	-	-
Cancelled on 30 April 2020 and transferred to Capital reserve	(3,648,415,419)	-	(3,648)	-
Issued on 7 August 2020 on conversion of 6% Unsecured Loan Stock 2021	-	1,433,565	-	28
Issued on 4 September 2020 following exercise of put option by minority shareholders in Recognise Financial Services Limited	-	5,600,000	-	112
As at 30 September 2020	-	46,994,616	-	940

12 Commitments

The holder of £2,669,515 7% Redeemable Preference Shares issued on 15 July 2015 by a subsidiary, Credit Asset Management Limited, may require the Company to purchase these shares at their face value and any accrued but unpaid dividend after 7 years if the shares are not redeemed by that date.

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. It is not considered that any deferred consideration 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 30 September 2020 was £862,500.

Notes to condensed financial statements

Continued

13 Financial risk management

Notes 32 and 33 to the annual financial statements to 31 March 2020 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk, interest rate risk, price risk and liquidity risk.

The 2020 Annual Report identified the main risk factors around the cash flow forecast in the Strategic Report at that time.

14 Financial instruments

A summary of financial instruments to which the impairment requirements in IFRS 9 are applied are as follows. Assets and liabilities outside the scope of IFRS 9 are not included in the table below:

Financial Instruments	**30/09/20 £'000 (unaudited)**	**31/03/20 £'000 (audited)**	**30/09/19 £'000 (unaudited)**
Financial assets			
Measured at fair value through profit and loss			
Financial assets - equity release plans	31,309	30,343	30,440
Other investments – unlisted security	-	-	8
Measured at amortised cost			
Right-of-use assets	509	650	-
Loans	11,290	15,321	14,972
Finance leases	1,967	2,687	3,331
Trade receivables	227	544	420
Other debtors	3,104	2,187	1,836
Cash and cash equivalents	5,645	7,219	9,891
Measured at fair value through other comprehensive income			
Legal case investments	-	-	130
	54,051	**58,951**	**61,028**
Financial Liabilities			
Measured at amortised cost			
6% Unsecured Convertible Loan Notes 2021	-	2,050	2,050
Other interest-bearing loans	64,028	67,773	67,015
Lease liabilities	577	724	-
Deferred consideration	154	149	497
Trade payables	646	795	680
Other creditors	231	295	176
Dividends payable	1	1	1
Accruals and deferred income	3,354	2,660	2,008
	68,991	**74,447**	**72,427**

Notes to condensed financial statements

Continued

14 Financial instruments (continued)

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 i.e. the valuation techniques use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The bases of assessing the fair values of the investment properties and financial assets – equity release plans are set out in note 3 of the annual financial statements to 31 March 2020. 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.

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.

Notes to condensed financial statements

Continued

14 Financial instruments (continued)

The following tables present the Group's assets that are measured at fair value at 30 September 2020 and 31 March 2020 respectively. No Level 1 or Level 2 assets were held at either date.

Level 3 valuation **30 September 2020 (unaudited)**	**Total** **£'000**
Investment properties	37,380
Financial assets – equity release plans	31,309
	68,689

Level 3 valuation **31 March 2020 (audited)**	**Total** **£'000**
Investment properties	38,609
Financial assets – equity release plans	30,343
	68,952

The movement on level 3 assets is as follows:

	30/09/20 **(unaudited)** **£'000**	**31/03/20** **(audited)** **£'000**	**30/09/19** **(unaudited)** **£'000**
Balance at 1 April	68,952	71.663	71,663
Additions	-	42	42
Equity transfer	394	1,367	342
Revaluations	2,857	1,443	764
Disposals	(3,514)	(5,563)	(2,463)
Balance at 31 March	**68,689**	**68,952**	**70,348**

Notes to condensed financial statements

Continued

15 Provisions for impairment under IFRS 9

Current lease and loan portfolio, excluding property bridging loans

Following the Board's decision in March 2020 to put all new lending on hold, the loan and lease portfolios of CAML/ PFL entered their run-off phase from that time.

The provisions made as at 31 March 2020 under IFRS 9 included COVID-19 overlay provisions which were incorporated in the model in relation to Stage 1 and Stage 2 agreements and included as part of specific provisions for Stage 3 agreements.

CAML/PFL have continued to monitor amounts due from customers closely, including those customers who took advantage of the offer made to customers in response to the COVID-19 pandemic of reduced payments, interest only and full capital and interest moratoriums for 3 months. Specific provisions required in respect of agreements in default, including those which were reclassified as Stage 3 agreements during the period, have been assessed on the basis of current knowledge, including forecasts of recoverable amounts. As a result of these reviews, a further £139,000 of the COVID-19 provisions held as at 31 March 2020 have been allocated to specific agreements.

In determining the provision required for Stage 1 and Stage 2 agreements as at 30 September 2020, the existing IFRS 9 model was used. As CAML/PFL had already incorporated COVID-19 overlay provisions into its provisioning exercise as at 31 March 2020, no allowance was made for these when the model was run as at 30 September 2020. In considering forward-looking macro-economic factors, the assumption made in the model was that GDP would not change. The IFRS 9 provision as at 31 March 2020 was recalculated after excluding the COVID-19 overlay provisions to provide a basis for computing the movement between 31 March and 30 September 2020 that ignored the effect of the COVID-19 overlay provisions.

The IFRS 9 provision generated by the model for Stage 1 and Stage 2 agreements as at 30 September 2020 was £112,000, £50,000 less than the amount calculated on the same basis as at 31 March 2020. As the net investment in the lease and loan portfolios is progressively reducing in the run-off phase, a reduction would be expected. In addition to this provision, a COVID-19 overlay provision of £538,000 is carried in respect of Stage 1 and Stage 2 agreements. The total provision carried at 30 September was £650,000 compared with £839,000 at 31 March 2020.

Consideration has been given as to whether the COVID-19 overlay provisions carried continue to be appropriate. On the basis of the collections experience during the period to September 2020 and current expectations regarding future collections, it has been concluded the overall IFRS 9 provisions made as at 31 March 2020 were realistic and can be applied to absorb bad debts arising in the run-off period. In view of the on-going uncertainty on the impact of COVID-19 on the amounts that will be realised from the lease and loan portfolios, it is considered the existing balance should be maintained at this time.

Following the overall assessment that the IFRS 9 provisions held at 31 March 2020 were appropriate, the net cost of bad debts arising in the period has been absorbed against the existing provision so that there is no charge for bad and doubtful debts in the profit and loss account. Similarly, the reduction on the IFRS 9 provision on the Stage 1 and Stage 2 agreements has not been credited to the profit and loss account but has been absorbed part of the overall provision.

Notes to condensed financial statements

Continued

15 Provisions for impairment under IFRS 9 (continued)

Property bridging loans

Property bridging loans are assessed individually for impairment using the simplified approach. Following an assessment as at 30 September 2020 of the loans existing at that date, it was determined that the position was the same as at 31 March 2020 ie 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.

The provision for impairment of loans and finance leases comprises the following:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2020 (unaudited)				
Loans	381	21	1,365	1,767
Finance leases	248	-	512	760
Provision for impairment	**629**	**21**	**1,877**	**2,527**
At 31 March 2020 (audited)				
Loans	501	21	1,277	1,799
Finance leases	317	-	479	796
Provision for impairment	818	21	1,756	2,595
At 30 September 2019 (unaudited)				
Loans	46	1	936	983
Finance leases	175	6	200	381
Provision for impairment	221	7	1,136	1,364

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.

Notes to condensed financial statements

Continued

15 Provisions for impairment under IFRS 9 (continued)

The table below shows an analysis of movements in the provision for impairments under IFRS 9:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 30 September 2019	221	7	1,136	1,364
Movement in provision for impairment				
Transfer to Stage 2	(14)	14	–	–
Transfer to Stage 3	(36)	-	36	–
Specific provisions	–	–	750	750
New financial assets originated	470	–	–	470
Other financial assets	177	–	–	177
Write-offs	–	–	(166)	(166)
Total movement in loss allowance	597	14	620	1,231
As at 31 March 2020	818	21	1,756	2,595
Movement in provision for impairment				
Transfer to Stage 2	(23)	23	–	–
Transfer to Stage 3	(122)	(23)	145	–
Specific provisions	–	–	65	65
New financial assets originated	6	–	–	6
Other financial assets	(50)	–	–	(50)
Write-offs	–	–	(89)	(89)
Total movement in loss allowance	(189)	-	121	(68)
As at 30 September 2020	629	21	1,877	2,527

Notes to condensed financial statements

Continued

16 Post balance sheet events

The Company completed its capital raise exercise in October 2020, raising £26,986,002 before expenses and issuing 33,355,688 ordinary shares at 80p each on 8 October 2020 and 376,815 ordinary shares at 80p each on 26 October 2020. The moneys raised included an investment of £25,000,000 from a single investor, Parasol V27 Limited, with the balance being subscribed by both existing shareholders and new investors. Following its investment, Parasol V27 Limited holds 38.7% of the ordinary shares of the Company while the other two major shareholders, DV4 Limited and Max Barney Investments Limited now hold 23.1% and 15.9% respectively. Under the arrangements with Parasol V27 Limited, Ms R Parasol and Ms N Llamas were appointed directors of the Company on 8 October 2020.

After allowing for the costs associated with the capital raise, the funds raised were invested in Recognise Financial Services Limited ("Recognise") to provide the necessary initial capital base from which Recognise can develop its lending operations.

In furtherance of the Group strategy that all new lending will be made through Recognise, the ownership of Property & Funding Solutions Ltd ("PFS") was transferred from the Company to Recognise on 8 October, with the total consideration of £6,069,359 being satisfied by the issue of shares by Recognise. In addition to the transfer of the PFS shares, the consideration related to the assignment of a loan of £4,857,114 from the Company to Recognise and an injection of £1,212,145 cash.

On 10 November, Recognise received authorisation with restriction (AwR) (banking licence) from the PRA/FCA. The receipt of this restricted banking licence enables Recognise to commence its banking activities and move towards meeting the mobilisation conditions set by the PRA/ FCA which will lead to the removal of the deposit restriction. The Company anticipates that Recognise will be granted a full UK banking licence by the end of June 2021.

By order of the Board

Michael Goldstein
Chief Executive Officer
30 November 2020