City of London Group

Annual Report and Accounts 2021

City of London Group

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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

- Successful cash raise exercise in October 2020 raised £27.0m before expenses. The funds were invested in Recognise Bank to facilitate its development and provide a capital base for its lending activities.
- Following the fund raise, Recognise Bank received authorisation with restriction (AwR) as a bank from the PRA on 10 November 2020 and began trading, offering four lending products. The business changed its name to Recognise Bank Limited from Recognise Financial Services Limited.
- Recognise Bank has now met the technical regulatory mobilisation conditions set by the PRA, following completion of the build out and testing of its banking infrastructure. It is expected it will be granted a full UK banking licence after the laid-down capital adequacy requirements are met.
- Capital raise announced on 23 August 2021, to raise a minimum of £11.4m conditional on shareholder approval, which was obtained on 8 September 2021. Two of the Company's major shareholders are supporting the next stage of the Group's development by investing a further £11.4m. This will be invested in Recognise Bank to meet the capital adequacy requirements referred to above. An open offer will be made to other existing shareholders.
- Sale of Acorn to Oaks for £1.1m was completed on 1 April 2021 while the sale of Milton Homes for £9.3m in total was agreed, subject to regulatory approval, on 3 September 2021. The net proceeds from the sale of Milton Homes will be invested in Recognise Bank.
- Recognise Bank has been working to implement its business strategy and develop its business so that it will be well placed to grow its lending activities once it receives a full banking licence and restrictions on deposit-taking are lifted, which is expected during the third quarter of 2021. It is also planning to introduce business savings products towards the end of 2021.

Financial results

£12.6m loss

Loss before tax after absorbing costs of £7.9m associated with UK banking licence application and £2.5m from discontinued activities (2020: loss before tax £9.7m after absorbing costs of £3.4m associated with applying for UK banking licence).

49p

Consolidated NAV per share attributable to shareholders[(a)] (2020: 60p).

(a) See note 34 for basis of calculation.

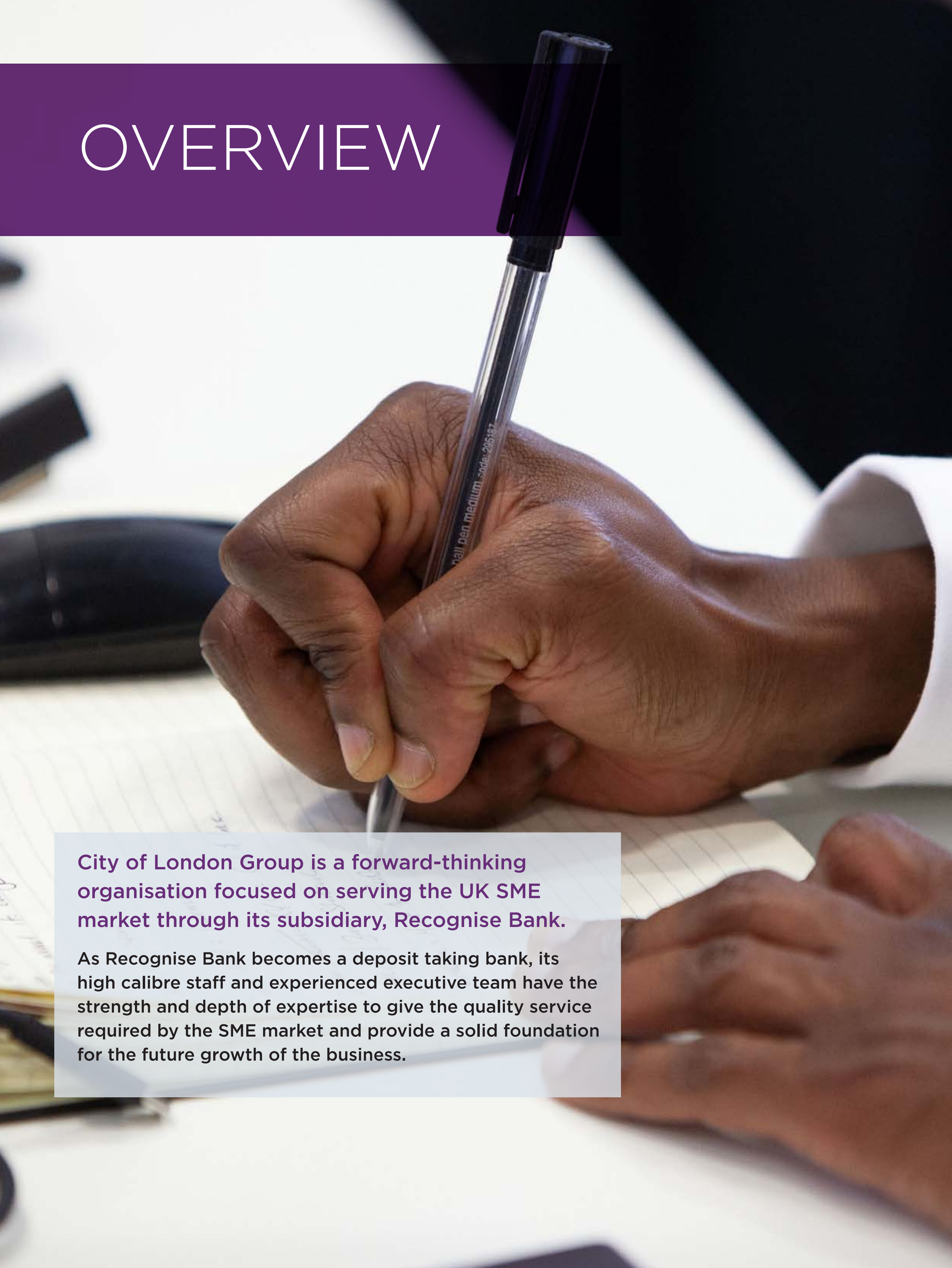
Reports

Pages 4 and 5 comprise the Chair's statement, pages 6 to 20 the Strategic report, pages 30 to 33 the Directors' Remuneration report and pages 34 to 37 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 through its subsidiary, Recognise Bank.

As Recognise Bank becomes a deposit taking bank, its high calibre staff and experienced executive team have the strength and depth of expertise to give the quality service required by the SME market and provide a solid foundation for the future growth of the business.

SME services

recognise

Recognise Bank Limited ("Recognise Bank")

Recognise Bank is implementing its strategy of building a fully licensed bank serving the UK SME market and accepting deposits from business and retail savers. Having received authorisation with restriction as a bank in November 2020, it satisfied the technical regulatory mobilisation requirements set by the Regulator within seven months. It expects to receive a full UK banking licence in the third quarter of 2021 when the capital adequacy requirements are met. It will be a relationship-led SME lending bank supported by the latest cloud-based technologies which, with a strong and experienced management team in place and no legacy loan book, is well placed to support SME businesses as the UK economy recovers. With full operational lending capabilities already in place, Recognise Bank will align growth in lending with growth in deposit taking when restrictions on deposit taking are lifted. It plans to introduce business saving products towards the end of 2021.

CAML
CREDIT ASSET MANAGEMENT LIMITED

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

As all new lending is now being undertaken by Recognise Bank, the existing loan and lease portfolios of CAML and PFL are now in their run-off phase. CAML is a business to business provider of debt finance to UK SMEs and 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. Future customer funding requirements will be considered through Recognise Bank.

PFS PROPERTY & FUNDING SOLUTIONS

Property & Funding Solutions Ltd ("PFS")

As all new lending is now being undertaken by Recognise Bank, the existing loan portfolio of PFS is in run-off as the loans mature and are repaid. PFS offered 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. Future customer funding requirements will be considered through Recognise Bank.

Discontinued operations

MILTON HOMES

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.

A²O AcorntoOaks FINANCIAL SERVICES Ltd

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.

Abbreviations

AIM	Alternative Investment Market
AwR	Authorisation with Restriction
ECL	Expected Credit Loss
FCA	Financial Conduct Authority
FiT	Forward-in-Time
GDP	Gross Domestic Product
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
TtC	Through-the-Cycle

Chair's statement

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With Recognise Bank poised to become a deposit taking bank, the Group is well placed to deliver its strategy of supporting UK SME businesses.

It is a pleasure to be able to tell you in my first report as your Chair about the substantial progress we have made over the last year in implementing the Group's growth strategy.

The Group has largely completed the process of simplifying and re-focusing its business activities. With Recognise Bank expected to achieve its full deposit taking authorisation in the very near future, the Group is well placed to take advantage of the opportunities that we see for it as a relationship-led bank focused on serving the UK SME sector, as the UK economy moves forward from COVID-19.

Business model and strategy

The Group's business model and strategy has continued to evolve as Recognise Bank maintained its progress towards being granted a full UK banking licence. After Recognise Bank achieved its initial goal of receiving authorisation with restriction as a bank in November from the PRA, the Board decided the Group should in future concentrate on the development of its banking business and divest itself of its other two businesses, Milton Homes and Acorn to Oaks. The sale of both businesses has been achieved since the year end and the proceeds will be redeployed in Recognise Bank.

A second major step in implementing the Group's strategy was reached in June when the PRA confirmed formally to Recognise Bank it had met all the technical regulatory conditions for mobilisation set by the PRA and would achieve a full UK banking licence once the capital adequacy conditions were met. It is a major achievement for the team at Recognise Bank to have completed the build out and testing of the banking infrastructure to the satisfaction of the Regulator within a seven-month period.

We will meet the capital adequacy conditions set by the Regulator after the forthcoming capital raise which was announced on 23 August 2021. The continuing support being offered by two of the Company's major shareholders who have agreed to subscribe £11.4m is a sign of confidence in the Group's strategy.

Chair's statement / continued

Recognise Bank is poised to move forward with delivering its business plan as soon as it exits mobilisation and restrictions on taking deposits are lifted which we expect in the very near future.

We believe the strategy for Recognise Bank remains robust and is now even more relevant as a result of the impact of COVID-19 on the UK economy. As the UK's SME businesses seek to recover and grow following lockdown restrictions, the opportunities for Recognise Bank, as a new entrant focusing on supporting the SME market, are as attractive now as when the strategy was first put in place.

Governance

Following a review of Corporate Governance, the Board increased the number of its independent non-executive directors in February by appointing four non-executive directors of Recognise Bank Limited as non-executive directors of the Company. As well as bringing the Company into line with the 2018 Corporate Governance Code requirements on independent non-executive directors, these appointments improve corporate governance overall by streamlining the oversight function of the boards of both companies.

The governance structure of the Company will be kept under review as the expansion of the Group continues.

Board changes

There have been a number of Board changes during the year.

Ruth Parasol and Nyreen Bossano-Llamas were appointed on 9 October 2020 in accordance with the terms of the Relationship Agreement with Parasol V27 Limited, the Company's largest shareholder.

Following the Corporate Governance review, four non-executive directors of Recognise Bank Limited were appointed as non-executive directors of the Company in February.

Lorna Brown and Lorraine Young resigned as non-executive directors on 18 August 2020 and 15 January 2021, respectively.

Andy Crossley, who has been a non-executive director since 2015, stepped down from the Board at the General Meeting on 8 September 2021.

I should like to thank Lorna, Lorraine and Andy for the valuable contributions each has made to the Board.

AGM matters

The Board is seeking authority at the AGM to issue up to 20,959,316 new shares. As in 2020, this is a larger amount than would normally be sought but will allow COLG to raise the new equity required to finance business opportunities arising after Recognise Bank has a full banking licence.

The Board does not recommend payment of a dividend.

Colin Wagman

Colin Wagman retired as Chair of the Board on 10 June. On behalf of the Board, I should like to thank Colin, who became the Chair in October 2017, for the valuable contribution he has made since that time and his leadership in implementing a new Group strategy which is being successfully delivered.

Outlook

A summary of the Group's activities during the year is given in the Strategic report.

While the continuing impact of COVID-19 on economic growth remains uncertain, the Board is confident that Recognise Bank, as a relationship-led bank supported by modern cloud-based technologies focusing on providing a high-quality service to customers, is well placed to meet the present and future needs of its target customers in the UK SME market.

The Group is successfully delivering the strategy it set out in 2017 and 2018 and the ability for Recognise Bank to take deposits, which is expected in the third quarter of 2021, is the final regulatory milestone to allow it to move forward as a bank and achieve its business plan.

Philip Jenks
Chair

9 September 2021

STRATEGIC REPORT

Strategic report

Business activities

The Group operated in three business areas during the year ended 31 March 2021. The Company's banking subsidiary, Recognise Bank, began trading following receipt of AwR in November 2020: all new lending activity is now transacted through Recognise Bank which anticipates receiving a full UK banking licence in the third quarter of 2021. The Company has decided it should focus future activities on the development of Recognise Bank and divest itself of its other two businesses. Acorn to Oaks was sold on 1 April 2021 and the sale of Milton Homes was agreed, subject to regulatory approval, on 3 September 2021.

The business areas were:

- providing loan and lease finance to the UK SME market through Recognise Bank, which offered its first loans in December, 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 10 to 13.

Financial summary

The consolidated results before tax of the businesses in the Group are shown below:

	2021 £'000	2020 £'000 (restated)
Banking activities, including banking licence application costs	(7,812)	(3,351)
Loan, lease and professions financing[a]		
Asset based finance, commercial and professional loans	(297)	(1,336)
Property bridging finance	109	58
Home reversion plans[a]	3,243	(2,602)
Financial services intermediary	5	(36)
Other	(7)	(8)
Holding company[b]	(7,888)	(2,385)
Loss before tax	(12,647)	(9,660)
Continuing operations	(10,119)	(6,452)
Discontinued operations[b]	(2,528)	(3,208)
	(12,647)	(9,660)

[a] stated after quasi-equity intra group payments of interest.
[b] 2021 includes a charge of £6,657,000 for the change in value of business units on reclassification as disposal groups.

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

	2021 £'000	2020 £'000 (restated)
Net costs associated with banking licence application and movement to a full UK banking licence	(7,812)	(3,351)
Loss before tax for the year (£'000)	(12,647)	(9,660)
Consolidated net assets per share (attributable to owners of the parent)	49p	60p

Strategic report / Business activities / continued

The results for the year reflect the transition in the Group's activities as it implements its strategy of focusing on the development and growth of Recognise Bank.

Recognise Bank began trading in November after receiving authorisation with restriction as a bank from the PRA. Progress towards obtaining a full UK banking licence was made as Recognise Bank worked towards meeting the regulatory mobilisation conditions set by the Regulator in the latter part of the year. The net costs of £7.8m for the year reflect the costs of completing the build-out and testing of Recognise Bank's banking infrastructure and the gradual build-up of its team to support future development and growth.

Following the decision of the Board to concentrate the Group's future activities on Recognise Bank and divest itself of its other businesses, the results include a one-off charge of £6.7m for the change in value of Milton Homes and Acorn to Oaks on reclassifying them as businesses held for disposal. Since the year end both businesses have been sold with completion in the case of Milton Homes being conditional upon regulatory approval.

Milton Homes made a profit of £3.2m compared with a loss of £2.6m in 2020 as UK residential property valuations increased sharply from March 2020. After the re-opening of the property market in May 2020, there was a continuing demand for properties for the rest of the year with sales prices generally exceeding expectations. The number of sales achieved in the year was affected by an increase in the time taken to complete sales.

Following the decision to cease new lending through CAML and PFS in March 2020, the existing lending portfolios entered their run-off phase. Despite the issues arising from the COVID-19 pandemic, the run-off process has to date gone smoothly and the provisions for bad and doubtful debts made in March 2020 in response to COVID-19 have proved appropriate. Allowance has been made for possible increased future defaults as the economy emerges from lockdown restrictions in the provisions carried forward.

The key contributors to the increase of £3.0m in the loss for the year are:

- increase of £4.4m in the net costs of Recognise Bank;
- one-off charge of £6.7m on the reclassification of Milton Homes and Acorn to Oaks as disposal groups;
- increase of £5.8m in the revenue earned by Milton Homes;
- decrease of £1.3m in the charge for bad and doubtful debts; and
- reduction of £1.4m in the charge for goodwill impairment.

Current activities

The Group has largely completed the process of re-focusing its activities, following the sale of both Acorn to Oaks and Milton Homes, subject to regulatory approval, since the year-end. Net proceeds from the sales will be reinvested in Recognise Bank to facilitate further development of its business.

Recognise Bank met the technical requirements for mobilisation in June 2021 within seven months of receiving AwR. It is continuing to implement its business plans and develop its product offerings so that it is well placed to grow its lending activities in line with growth in deposit taking once it has received a full UK banking licence and deposit restrictions are removed. Since the year end, Recognise Bank has increased its office space in Manchester, which services customers in the North West, and opened an office in Birmingham to service customers in the Midlands.

The run-off of the lease and loan portfolios of CAML/PFL and PFS is continuing as planned. Existing customers of these businesses may apply for loans from Recognise Bank.

As lockdown restrictions are gradually removed, staff are moving towards working on a hybrid basis, working part of the week in the office and part of the week from home.

Review of the businesses

Recognise Bank Limited ("Recognise Bank") – Bank focused on UK SME market

(a) Description of the business and business model

Recognise Bank began the process of applying for a UK banking licence in early 2018 with the objective of setting up a fully licensed bank that would focus on the UK SME market and accept deposits from both business and retail savers. The Group strategy is to develop a relationship-led bank using versatile cloud-based technology that will focus on delivering excellent service to SME businesses, which are key to the future growth of the UK economy, but have to date been underserved.

Major milestones were achieved during the year. Following the issue in July 2020 by the PRA of its Total Capital Requirement (TCR) letter, which set out the PRA's capital and liquidity requirements, Recognise Bank received authorisation with restriction (AwR) as a bank on 10 November 2020 and began trading, offering four loan products from November. Receipt of AwR enabled the change of name from Recognise Financial Services Limited to Recognise Bank Limited.

After receiving AwR, Recognise Bank worked to complete the build out and testing of its banking infrastructure and meet the regulatory mobilisation conditions set by the PRA in November. The technical requirements were met in June 2021: a full UK banking licence will be granted when capital adequacy requirements are met, after completion of the planned capital raise.

(b) Financial review

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

£'000	2021	2020
Revenue	76	–
Loss before tax	(7,812)	(3,351)

The loss reflects the costs associated with developing the banking infrastructure and setting up its appropriate governance and management structure, including the recruitment of key staff, as Recognise Bank moved towards becoming a fully licensed bank during the year. The executive team exercised strict control over costs and the timing of expenditure.

COLG invested £34.6m in Recognise Bank during the year to facilitate its development and provide an initial capital base to support its lending activities. This investment included the transfer of the ownership of PFS from COLG to Recognise Bank in October 2020 and the assignment from COLG of a loan of £4.85m made to PFS.

Recognise Bank began trading in November, offering four initial lending products and making loans in its own name. All new lending in the Group will be made through Recognise Bank and customers of PFS, CAML and PFL, whose portfolios are now in run-off, can seek further funding through Recognise Bank.

The confidence of the management team that Recognise Bank will attract new borrowers is borne out by the fact that between November 2020 and the Group year-end in March, Recognise Bank received loan applications in excess of £400m.

Recognise Bank is now working to develop and expand its business in line with its strategy, building a regional presence in the North West, Yorkshire, Midlands and the South. As a new entrant to the SME banking market, Recognise Bank does not have the potential problems associated with a legacy loan book and is able to concentrate on meeting the needs of customers and building a quality loan book. While there are concerns about the future impact of COVID-19 on the SME business sector, Recognise Bank is well placed to help the growth of businesses with underlying strength and experienced management as well as to assist entrepreneurs who see opportunities at this point in the economic cycle.

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

(a) Description of the business and business model

PFS provided property bridging and development finance for commercial customers from its launch in May 2018 until the Group placed a hold on all new lending in March 2020 due to the impact of COVID-19. Additional funding was, however, provided during the year to existing customers to deliver agreed business plans that would achieve full repayment of the underlying loan.

As the Group decided in March 2020 that all new lending would be made through Recognise Bank, the existing PFS loan portfolio is now in its run-off phase.

Recognise Bank considers property bridging finance to be one of its core loan products and existing PFS customers can seek future funding through Recognise Bank.

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	2021	2020
Revenue	770	631
Operating profit	442	282
Profit before tax	109	58

The COVID-19 pandemic and resultant lockdown initially impacted both the residential and commercial property markets. During the year PFS focused on managing its existing loan book and maintaining regular contact with its customers. No payment moratoriums were required by its customers and no loans required any specific impairment provision. As a result of the impact on property markets and a marked slowdown in the debt markets for new lending, PFS supported its customers with loan extensions to allow them more time to execute their business plans and achieve full repayment of their loans. The loan book of £5.74m at 31 March 2021 comprised 8 loans.

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. Until the Group paused all new lending in March 2020 in response to COVID-19, CAML 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 brokers.

As the Group decided in March 2020 that all new lending would be made through Recognise Bank, the existing loan and lease portfolios are now in their run-off phase.

Recognise Bank considers asset finance, working capital loans and professional practice property bridging finance to be core loan products and existing CAML and PFL customers can seek future funding through Recognise Bank.

(b) Financial review

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

£'000	2021	2020
Revenue	1,130	2,035
Operating loss before shareholder capital charges	(66)	(1,126)
Loss before tax	(297)	(1,336)

CAML made an operating loss before shareholder charges of £66k (2020: loss of £1,126k). The results for the year were adversely affected by one off business restructuring costs following the decision to wind down the business. The prior year loss included a provision for bad debts of £1,138k that was made in March 2020 as a result of the COVID-19 pandemic.

In early March 2020, CAML commenced an extensive telephone customer contact programme to determine the extent of the impact of the COVID-19 pandemic on its customers' businesses and their ability to meet payments due to CAML and PFL. Contact with individual customers was maintained throughout the year and was well received. In appropriate circumstances, the business supported customers through reduced payment, interest only and full capital and interest moratoriums. Recognising the differing impacts of the trading restrictions imposed on different business sectors, CAML extended the initial three-month moratorium for periods that depended on the extent to which the underlying business of the customer had been affected by the various lockdown restrictions.

The information obtained from early direct customer contacts was used to inform the IFRS 9 provisioning exercise undertaken at 31 March 2020. This and the on-going contact with customers during the year have similarly informed the IFRS 9 provision exercise as at 31 March 2021. The effects of COVID-19 and repeated lockdown restrictions have been more prolonged and severe than initially expected and, as the government's support schemes are withdrawn, it is anticipated there will be increased stress on businesses as business owners attempt to rebuild their trading performance. With this in mind, CAML has reviewed the basis of its IFRS 9 provisioning exercise and, as at 31 March 2021, reclassified all agreements with hospitality and leisure businesses as Stage 2 agreements to reflect the fact these sectors have been most affected by lockdown restrictions, and also increased its estimate of future losses where agreements go into default. This resulted in an additional provision of £62k for future losses on Stage 1 and Stage 2 agreements which were not

Strategic report / Review of the businesses / continued

currently in default but, from the IFRS 9 model, might be expected to go into default in the next 12 months.

Despite the adverse impacts of COVID-19, CAML maintained scheduled repayments on its block funding facilities and completed full repayment of its loan from COLG during the year. This was achieved due to focused cash collection efforts which enabled CAML to maintain good cash balances.

The size of the portfolio (the current net investment in the loans/leases provided to customers) decreased from £14.7m to £6.1m over the year.

A number of employees transferred to Recognise Bank in July 2020 as part of the Group's forward recruitment plans.

MILTON HOMES

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

(a) Description of the business and business model

Milton Homes, an 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	2021	2020
Revenue	9,005	3,643
Operating profit/ (loss) before shareholder capital charges	4,148	(1,679)
Profit/ (loss) before tax	3,243	(2,602)

Milton Homes' day-to-day business has not changed since October 2017: it has continued to sell its properties as reversions occur, producing cash flow for re-investment in the Group. The portfolio, which comprised interests in 437 properties at 31 March 2021 (2020: 473 properties), was externally valued at

Strategic report / Review of the businesses / continued

£69.7m at that date (2020: £68.95m). The number of properties that reverted to Milton Homes during the year was 58 compared with 49 in the previous year.

The results reflect the recovery in the housing market since March 2020 with an increase in the house price index of 6.34% compared with 1.81% in the previous year, as well as the increased number of reversions. The number of sales achieved was affected by an increase in the time taken to complete sales which is in part attributable to the COVID-19 pandemic. At 31 March 2021 Milton Homes had 30 properties on the market, of which 24 were under offer. Since the year end, Milton Homes has sold 23 properties and currently has a further 19 under offer.

During the year, Milton Homes paid cash of £1.0m to COLG from its operational cash flow towards repayment of the Deep Discount Bonds held by COLG (2020: £1.5m).

Following the Board's decision to focus on the future development of the Group's banking activities, Milton Homes was reclassified as a discontinued operation. An agreement for the sale of the company and its subsidiaries, which is subject to the FCA giving approval for the change of control of Milton Homes, was signed on 3 September 2021.

A²O AcorntoOaks FINANCIAL SERVICES Ltd

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 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.

(b) Financial review

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

£'000	2021	2020
Revenue	885	746
Operating profit before prior period costs	5	19
Prior period costs	–	(55)
Operating profit/ (loss)	5	(36)
Profit/ (loss) before tax	5	(36)

The results of Acorn to Oaks for the year were disappointing as it was unable to take forward its plans for business expansion due to the effects of the COVID-19 pandemic. The commercial finance broking division saw very little activity in the market in the first half of the year as development activity stalled although by the year-end the number of pipeline deals increased as the market gradually recovered. The general insurance division closed its recently established London base in January 2021 as COVID-19 continued to depress the level of SME business activity.

The level of activity of the general insurance division's core business and the IFA remained stable over the period, as both maintained their high client retention rate. General insurance revenue levels benefitted from the hardening of insurance premium rates over the year.

Following the Board's decision to focus on the future development of the Group's banking activities, Acorn to Oaks was reclassified as a discontinued operation. It was sold on 1 April 2021.

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.

Credit risk

Credit risk particularly arises in the Group's lending businesses and is mitigated in a number of different ways. There is a well-defined process for the approval of new lending, which includes assessment of the risks that customers will not meet their obligations and a review of the affordability of any loan. Lending is overseen by the credit committee which operates under specific delegated powers. Collateral security is obtained for most loans, with the majority of new lending being secured on property. As appropriate, loans are secured over other assets and company and personal guarantees obtained. Regular reports on the performance of the lending portfolio are made to the credit committee. See note 33(i) for Financial risk management in relation to credit risk.

Interest rate risk

The Group is exposed to interest rate risk through Recognise Bank in two ways. Firstly, an increase in interest rates may result in lower net interest income as increased interest income is likely to lag increased borrowing costs. Secondly, on an increase in market interest rates, there is a value risk in that the value of fixed rate assets will fall by more than fixed rate liabilities, as there would typically be more fixed rate assets than fixed rate liabilities and these would have longer maturities. Third party borrowings by CAML and PFS are all at fixed rates. See note 33(iv) for Financial risk management in relation to interest rate risk.

Legal and regulatory risk

Regulatory risk now relates primarily to the activities of Recognise Bank and is the risk that it fails to meet regulatory requirements or guidelines that apply to it as a bank.

Following the receipt of authorisation with restriction as a bank in November 2020, Recognise Bank began the process of further developing and testing its systems as it moved towards mobilisation when it would receive a full UK banking licence. There was a risk that it would not satisfy the requirements of the Regulator. In June 2021, the Regulator confirmed that Recognise Bank had met the operational and technical standards required for mobilisation.

The on-going regulatory requirements related to both capital and liquidity adequacy. These are met by Recognise Bank having both an ICAAP and ILAAP which are approved by the Recognise Bank board annually, as well as compliance monitoring reviews. Recognise Bank monitors regulatory changes by maintaining a regulatory tracker.

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.

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.

The businesses which became discontinued operations during the year are regulated. Acorn to Oaks is authorised by the FCA to provide regulated products and services as advisor and broker while four subsidiaries of Milton Homes are also 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 5-year strategic plans as well as annual budgets that include budgeted cash forecasts and funding requirements. There are some mitigations which can be invoked to reduce working capital requirements including cost cutting and managing the growth of the businesses.

Competition

As the Group's strategy is to concentrate on the development and growth of Recognise Bank, there is a risk that competition from both new banking entrants and existing dominant banking institutions will reduce lending margins and potentially the performance of the business. This risk is mitigated by exceeding customer expectations by focusing on customer service and developing products that meet the needs of Recognise Bank's target SME market.

Economic uncertainty

The COVID-19 pandemic has had a material adverse effect on UK economic activity to date, and its influence is likely to be felt for some years. The immediate outlook for the UK economy and in particular the SME market is uncertain as the government withdraws economic assistance to business. Continuing pressure on SME businesses is likely to increase the risk of defaults and may deter capital investment by the sector, which could adversely affect the development of the Group's lending businesses. Uncertain growth prospects for the UK economy may also affect the ability of the Company to raise the capital necessary to deliver its strategy.

Weak property market

The Group is adversely affected by a weak property market through its lending businesses. Factors that mitigate the risks within the lending businesses are the level of loan to value where loans are secured over property, covenants given by customers and, where appropriate, recourse to other forms of credit protection. Recognise Bank and PFS are 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.

Milton Homes is impacted by movements in the residential property market which delay sales or reduce sale values.

Cyber risk

The Board has considered risks arising from cyber crime and IT resilience. The Group is applying industry standard frameworks to its cyber defences and is using penetration testing and third-party vulnerability reports to assess its cyber posture. Recognise Bank also reviews the cyber posture of third parties which operate critical systems on its behalf. The Group has business continuity plans in place, including a disaster recovery plan.

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.

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Climate change

The Group has an Environmental and Sustainability Policy which sets 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 Group's banking subsidiary, Recognise Bank, has set up a Responsible Business Group to assist the Chief Credit Officer who, as the person responsible for ESG and sustainability, is responsible for identifying and managing financial risks arising from climate change.

The Environmental and Sustainability Policy incorporates a defined action plan that focuses on four key areas:

- Performance by Group businesses – Going forward, performance will be measured against criteria set in four areas – people, planet, governance and prosperity - which will form the basis for actions to promote sustained improvement.
- Products offered by Recognise Bank – Recognise Bank intends to encourage positive ESG and sustainability activity through its lending and deposit products. It has an ESE (Environmental, Social and Ethical) excluded sectors list that identifies business sectors that negatively impact environmental, social and or ethical values and is in the process of developing a positive/ green credentials sectors list which will encourage positive ESG and sustainability activity. These will inform lending decisions.
- Physical risks – Risks arising from both longer-term climate change and individual weather events (eg rises in sea level, more extreme weather fluctuations, and floods) may affect the properties that Recognise Bank loans are secured on. Flood risk ratings are recorded for such properties.
- Transition risks – There are transition risks associated with the adjustment to a low-carbon economy which will be addressed as they are identified.

Recognise Bank has updated its lending documentation to incorporate ESG, ESE and insurance questions and record information on the flood risk rating and EPC rating for properties. In addition to informing lending decisions, the information enables Recognise Bank to monitor these risks in its loan book on an ongoing basis.

Over the current year, the Group intends to develop its reporting to enable it to make the disclosures recommended by the Task Force on Climate-related Financial Disclosures.

Going concern

In making their going concern assessment, the directors have reviewed the base case and stressed Group cash flow forecasts for the period to 30 September 2022 in detail.

As part of this review, the directors have considered:

- the capital structure and liquidity of the Group over the period;
- 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 future UK economic activity and actions the Group could take to mitigate the impact on the business:
- the mobilisation conditions set by the PRA as a requirement for Recognise Bank obtaining a full UK banking licence; and
- the raising of further capital by the Company to support the growth of Recognise Bank.

The Board has also considered mitigating actions that could be taken by Group businesses and the Board if there was a delay in raising additional capital to support the growth of Recognise Bank or if the amount raised was less than planned.

The Board assesses its future capital and liquidity requirements regularly and, as part of its overall strategy, develops plans to access new funding as and when required. Group businesses prepare annual budgets that include budgeted cash forecasts and funding requirements which have been reviewed by the Board and, in the case of Recognise Bank, form part of its submission to the PRA.

COLG

As at the end of September 2022 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 Bank to meet capital adequacy requirements set by the PRA and grow its activities in line with its business plan.

The key assumption around the cash flow is that the Company will receive funds from its subsidiaries by way of fees for management services and recharges for shared accommodation and other services or otherwise, to enable the Company to meet its running costs.

Recognise Bank

Recognise Bank received authorisation with restriction as a bank in November 2020. Having met the technical mobilisation conditions set by the PRA in June 2021, it anticipates that it will have a full UK banking licence in the third quarter of 2021, when deposit restrictions will be lifted after capital adequacy conditions for mobilisation are met.

The Company provided funding of £34.6m to Recognise Bank during the year, which includes £25.9m from the Company's cash raise in October 2020, and has invested a further £1.5m since the year end. The Company intends to provide Recognise Bank with additional capital of £20.4m, which includes proceeds from the planned capital raise and the sale of Milton Homes. An amount of £13m, which will be provided during the third quarter of 2021, will enable Recognise Bank to satisfy the capital adequacy requirements to exit mobilisation. The total additional investment of £20.4m will enable Recognise Bank to meet its regulatory capital and liquidity adequacy requirements for a period of at least 13 months.

PFS

PFS became a wholly-owned subsidiary of Recognise Bank in October 2020. As all new lending is to be made through Recognise Bank, its existing loan portfolio is now in run-off. As loans are repaid on maturity, the funds will be used by Recognise Bank as it expands its loan book.

CAML

Following the decision by the Board in March 2020 to pause lending and undertake all new lending through Recognise Bank, the loan and lease portfolios of CAML entered their run-off phase. The run-off phase is continuing as the remaining loan and lease agreements move towards maturity. The positive operational cash flow during the year enabled CAML to maintain scheduled repayments on its block funding loans and repay the whole amount due to COLG, notwithstanding the adverse impact of COVID-19 on its SME business customers. CAML's management believe this positive cash inflow will continue in the period to 30 September 2022 and will exceed the amount required to meet CAML's payment obligations over that period.

Risk factors

The main risk factor around the cash flow forecast is as follows:

- the raising of sufficient equity by the Company to allow Recognise Bank to meet its capital adequacy requirements and hence implement its development plan.

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 satisfied that the Company and Group have and will maintain sufficient financial resources to enable them 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 accordance with the UK Corporate Governance code, the directors have assessed the outlook for the Group over a longer period than was considered in relation to going concern.

The successful development of a new bank focused on the UK SME market has been at the heart of the Group's strategy since late 2017. Recognise Bank, the Company's wholly-owned subsidiary, received its formal authorisation as a bank from the PRA and FCA in November 2020, one of only a handful of new banks to be authorised since the beginning of the COVID-19 pandemic, and met all technical regulatory mobilisation conditions set by the PRA within seven months of receiving that authorisation.

The directors have endorsed a five-year business plan which shows how the Group, through its subsidiary Recognise Bank, will serve the UK SME market and demonstrates the viability of the Group up to March 2026. Various stress test scenarios for a range of circumstances of different severity and probability that could affect the Group, have been applied via the Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment Process ("ILAAP) of Recognise Bank, which forecast key capital and liquidity requirements and expected changes in resources.

The directors' assessment has been made with reference to:

- 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 Bank and consolidated level; and
- the Group's forecast cash flows, liquidity and funding profile over the period.

Since Recognise Bank began trading following its receipt of its licence as a bank with restriction in November 2020, it has launched four lending products to the market and will offer further products in the second half of 2021. After it receives a full banking licence, Recognise Bank will also take deposits from retail customers, and will offer a range of business savings products in the latter part of 2021.

The directors believe the Group's strategy of focusing future activities on the development and growth of Recognise Bank is robust. The Board sees that a new entrant like Recognise Bank, as a relationship-led lending bank focused on providing high levels of service to SME businesses, can meet the needs of the UK SME market better than established competitors. With many SMEs seeking to grow their businesses as the UK economy recovers from COVID-19 restrictions, the Board considers there are good business opportunities for Recognise Bank within the SME market.

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 standards 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.

The Board decided to provide additional funding to Recognise Bank before it received authorisation with restriction as a bank that would enable it to advance the planned build out and testing of its banking infrastructure. The objective, which was achieved, was to shorten the time required for Recognise Bank to meet the technical conditions for mobilisation set by the Regulator in November. The technical requirements were met within 7 months: this will pave the way for the early granting of a full UK banking licence when capital adequacy requirements are satisfied. A full UK banking licence will facilitate implementation of the Group's strategy to provide banking finance to the UK SME market.

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 key policies to promote a healthy corporate culture.

While circumstances in 2020 have been challenging, Group businesses and their employees adapted well to the challenges and throughout the period continued to progress delivery of the Group's strategic plan, in no small part due to the inclusive culture which the Board seeks to foster across the Group. The Group provided flexible working opportunities, mental health awareness sessions and individual support to staff as well as more regular and focused communications during the pandemic.

The Group is focused on operating and developing its lending businesses in such a way that the Group maintains a reputation for fairness and high standards of business conduct. Recognise Bank will operate as a relationship- led SME lending bank that concentrates on meeting its customers' needs and surpassing their expectations.

Information on KPIs used by Group companies is included in the business reviews in the Strategic report on pages 10 to 13.

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 25.

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.

Strategic report / Section 172 statement / continued

The Board maintains an open dialogue with its three major shareholders. Under agreements in place with the Company, three directors have been appointed by two major shareholders and an observer to the Board appointed by the third. 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 delivering the Company's strategy which will require increases in the Group's capital base in future.

The Company also communicates with its shareholders 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 continued to maintain its support (both financial and otherwise) for Recognise Bank as it progressed its application for a full UK banking licence, both prior to its receiving authorisation with restriction as a bank in November and subsequently, as it worked towards meeting the conditions for mobilisation set by the Regulator. Throughout the year, Recognise Bank had meetings each month with the PRA and FCA and answered all enquiries and questions raised. The Board received reports from the executive team on the progress of the application and the continuing interaction and dialogue with the regulators. Where matters relating to the Group as a whole were raised by the PRA or FCA, the Board considered these and responded to them appropriately.

Recognise is operating under the Senior Managers and Certification Regime.

Customers

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

The Board supported the extensive customer contact programmes undertaken by CAML and PFL during the year which offered moratoriums and other changes in repayment arrangements to customers whose businesses had been affected by the COVID-19 pandemic. In accordance with the Group's customer-centric focus, the Group's lending businesses have maintained close contact with customers, granting extensions to moratoriums and additional moratoriums where appropriate.

Employees

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

The Board believes in creating a culture where all staff can thrive, feel supported and valued, and are able to develop and grow their careers. Recognise Bank has recently established an Emerging Talent Programme designed to strengthen the internal talent pipeline and act as a catalyst for positive cultural change. A new employee engagement platform also enables management to take constant feedback from all staff and respond immediately to any issues or concerns.

Environment

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

As stated in the section on Climate Change on page 16, the Group has an Environment and Sustainability Policy. Recognise Bank has set up a Responsible Business Group under the Chief Credit Officer to take forward an action plan that focuses on four key areas. Recognise Bank intends to develop its reporting systems in the current year so that it can monitor climate-related financial risks and the Group can make the disclosures recommended by the Task Force on Climate -related Financial Disclosures. The Group will continue to consider 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

9 September 2021

GOVERNANCE

Board of Directors

Philip Jenks

Independent Non-executive Chair

Appointment

15 February 2021

Responsibilities & Experience

Philip became Chair on 10 June 2021. Philip has had a long and successful career in banking and is also the Chair of the Company's subsidiary Recognise Bank. Before joining Recognise Bank in 2019 he was first an independent Non-Executive Director and then Chair at Chartercourt FS Group and was closely involved in a successful banking licence application. After obtaining banking permissions in 2015 Philip was involved in the launch of Charter Savings followed by a successful IPO in October 2017. Philip's experience also includes being a NED of Leeds Building Society between 2011 and 2020 and in 2020 he became Chair of Auden Group Ltd, a 'for profit' Social Enterprise intent on changing the face of UK consumer finance.

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 was responsible for the recruitment of the team that led the banking licence application process in Recognise. He is a trustee of several charities.

Nyreen Bossano-Llamas

Non-independent Non-executive Director

Appointment

9 October 2020

Responsibilities & Experience

Nyreen was appointed to the Board on 9 October 2020. She is currently a senior advisor in RG Advisors Limited, the private family office of Ruth Parasol. She was formerly a partner at Hassans International Law Firm and has advised on many aspects of corporate, commercial and private client work. Subsequently, Nyreen has also been within the leadership team in a gaming operation and led the development and launch of its regulated business, and was directly responsible for corporate development, business development, public policy and strategy. Nyreen is a trustee of various charities, including The Gibraltar National Theatre Foundation, and is an appointed member of the Gibraltar Public Service Commission.

Board of Directors / continued

Moorad Choudhry
Independent
Non-executive Director

Appointment
15 February 2021

Responsibilities & Experience

Moorad was appointed to the Board on 15 February 2021. He was formerly CEO of Habib Bank and has extensive experience in managing businesses across wholesale, commercial and retail banking lines. He has a proven track record in delivering treasury P&L at a number of the banks he has worked at and is a respected industry commentator on balance sheet risk management, capital management and risk governance infrastructure. His experience extends to managing large and complex banking group balance sheet structures covering balance sheet risk, ALM, liquidity, capital and interest rate risk.

He started his career as an analyst at The London Stock Exchange and later moved to roles at well established companies including ABN AMRO, KPMG, JP Morgan Chase, Europe Arab Bank and RBS and, most recently, worked at Cambridge and Counties.

Andy Crossley
Independent
Non-executive Director

Appointment
19 October 2015

Responsibilities & Experience

Andy was appointed to the Board on 19 October 2015. He spent twenty-four years, principally at Invesco Perpetual, as a UK small cap fund manager. In 2011 he moved to the sell side in a corporate financial advisory and execution role, initially at Peel Hunt as Head of ECM/Syndicate, and then from 2015 as Managing Director of Stockdale Securities. Following a revival in the trading at Stockdale, the business was sold to Shore Capital, and after a successful integration Andy stepped away from a full-time broking role in October 2019. Andy sits on the LSE AIM Advisory Group and he also chairs the QCA Primary Markets Expert Group. He brings a wealth of corporate governance and capital markets expertise to the Group.

Richard Gabbertas
Independent
Non-executive Director

Appointment
15 February 2021

Responsibilities & Experience

Richard was appointed to the Board on 15 February 2021. He studied economics / law before qualifying as a chartered accountant and becoming a partner with KPMG in 1995. He was a Partner for 23 years in the Financial Services Practice and led the Regional Financial Services Practice providing audit and advisory services to a range of household names in the sector from established banks and building societies to new entrants. He has extensive knowledge of financial services and a deep understanding of banking regulation. He is Chair of the Audit Committee at Arbuthnot Latham.

Board of Directors / continued

Louise McCarthy
Independent
Non-executive Director

Appointment
15 February 2021

Responsibilities & Experience

Louise was appointed to the Board on 15 February 2021. She is a highly qualified CIO, CFO and business change leader with over 35 years' experience in large private and public sector organisations, embracing complex technology and digital transformation strategies. Louise started her career in finance and is a qualified ACCA. In recent years, Louise has been IT Transformational / Change Director at HM Revenue & Customs followed by contractor roles as Transformational Director at Aviva, and Specsavers, then CIO Digital Transformation at the European Bank for Reconstruction and Development.

Latterly, Louise was contracted to HSBC as COO, Global Group Digital Transformation and was a '2017 CIO Women in IT' finalist, Nominated Leading UK Female CIOs for the last five years and a speaker on Digital Transformation. Currently Louise is a senior advisor in digital practice at Bain and Co.

Paul Milner
Non-independent
Non-executive Director

Appointment
29 November 2013

Responsibilities & Experience

Chair 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. Paul qualified as a solicitor in 1986 but has spent most of his career in the property, construction and private finance industries. 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 and he has been Chief Executive of a privately-owned group of property companies since July 2013.

Ruth Parasol
Non-independent
Non-executive Director

Appointment
9 October 2020

Responsibilities & Experience

Ruth was appointed to the Board on 9 October 2020. She is a successful entrepreneur and one of the world's most outstanding self-made businesswomen. She currently advises over £1bn within her own private family office with international businesses active in Real Estate, Asset Management and Private Equity.

Simon Wainwright
Independent
Non-executive Director

Appointment
10 June 2021

Responsibilities & Experience

Simon was appointed to the Board on 10 June 2021. Simon is MD, UK and Ireland and COO for Europe, Middle East and Africa at global reinsurer Reinsurance Group of America (RGA). Prior to this role, Simon held several senior positions at HSBC including CEO, HSBC Ireland, Head of Business Banking, UK and COO, Corporate and Structured Finance. He is also a NED of National Counties Building Society.

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 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, 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 27, 28 and 29. The terms of reference of each committee are available in the Document Library on the Company's website at https://www.cityoflondongroup.com/new-investor/

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.

Philip Jenks, who was appointed as the Chair following the retirement of Colin Wagman on 10 June 2021, is deemed to be independent within the definition of the Code. While this was not the case with Colin Wagman, the Board believed that, as Chair, he was 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 ten directors: the non-executive Chair, one executive director and eight non-executive directors, six of whom are independent. Biographical details of directors together with details of their significant commitments are set out on pages 22 to 24 of this report. The Board therefore now has a majority of independent non-executive directors.

THE DIRECTORS

The directors possess a wide range of skills, knowledge and experience relevant to the leadership of the Company, including banking, 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.

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

An evaluation was conducted in 2019 and no concerns were found. Due to the changes at board level during the year with a number of new independent directors joining, the Board has decided to postpone the next board evaluation until 2022. 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. However, a wider review of the Company's governance structure is in course, and this will include the development of a new succession plan.

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.

Following the appointment of the five new independent non-executive directors - Moorad Choudhry, Richard Gabbertas, Philip Jenks, Louise McCarthy and Simon Wainwright - the Board currently comprises ten directors: the independent Chair, one executive director and the eight non-executive directors. Six of the directors are independent, one is appointed under the terms of the Company's relationship agreement with Max Barney Investments Limited and two are appointed under the terms of the Company's relationship agreement with Parasol V27 Limited. As mentioned above, the Chair Philip Jenks was considered independent on his appointment on 10 June when assessed against the criteria of provision 10 of the Code and the Board believes he remains independent in character, mindset and judgement. All non-executive directors continue to dedicate sufficient time to meet their Board responsibilities.

The Board is yet to put in place a policy on the tenure of the Chair. However it is the intention of the Board that the Chair should not remain in post beyond nine years from the date of first appointment to the Board.

The Board has considered and reviewed the effectiveness of each non-executive director, taking into account the results of previous Board evaluations and any factors that may affect, or could appear to affect, a director's judgement and independence. The Board confirms that each non-executive director 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 a result, 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

Corporate governance statement / continued

each annual general meeting and at the Company's registered office. Further details on their terms of appointment can be found on page 33 of this report.

AUDIT AND RISK COMMITTEE REPORT

The committee was chaired by Andrew Crossley throughout 2020 and the beginning of 2021. Its other members were Colin Wagman and Lorraine Young. On 16 February 2021, the Board approved the constitution of a new audit and risk committee. The current members are Richard Gabbertas (Chair), Louise McCarthy and Moorad Choudhry. Philip Jenks was a member between 16 February and 17 August 2021. Richard Gabbertas has relevant experience as a chartered accountant and as a senior auditor at a top four Audit firm.

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 audit & risk 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 revenue recognition) 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 of the future economic consequences of COVID-19 on the SME sector increase both the level of judgement required and the inherent subjectivities.
- Impairment of carrying value in subsidiaries, including assets recategorised as "held for sale" assets, which would reduce the net asset value of the Company and Group. The review of future projections and cash flow forecasts and, as appropriate, the estimated net realisable value of held for sale assets 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 2022, 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 audit and risk committee considered the scope and findings of the external audit as well as the independence and objectivity of the external auditors. The Company's subsidiary Recognise Bank Limited became a public interest entity ('PIE') on 10 November when it received AwR as a bank. As a result, the external auditors were required to cease providing non-audit services to the Group within three months. The split between audit and non-audit fees for the year under review appears in note 6 on page 66.

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 August 2021, the committee considered the performance of the external auditor and the effectiveness of the audit process by discussing the results of the 2021 external audit, including their views on material accounting issues and key judgements and estimates; considering the robustness of the audit process; reviewing the quality

Corporate governance statement / continued

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 Company's subsidiary, Recognise Bank Limited, has appointed Deloitte to provide its internal audit function and support its overall governance structure as it moves towards obtaining a full UK banking licence. The audit and risk committee agreed it was not appropriate at the present time to have an internal audit function for other group companies.

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, 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 responsibilities of the Chief Financial Officer, Chief Risk Officer, Chief People Officer and Chief Technology Officer of Recognise Bank extend to the Group as a whole, so enhancing the Group's overall internal control systems.

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 96 and 104. The directors' statement on going concern is on page 17.

The Section 172 statement is on page 19 and 20.

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 30 to 33.

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

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. Philip Jenks (Chair), Michael Goldstein and Simon Wainwright. 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;

Corporate governance statement / continued

- 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	20	20	3	3	5	5	1	1
M H Goldstein	20	20	–	–	–	–	1	1
P G Milner	20	20	–	–	–	–	1	1
C B Wagman	19	20	3	3	4	5	1	1
L E Young[1]	17	17	3	3	5	5	1	1
L Brown[2]	8	8	–	–	–	–	–	–
R Parasol[3]	3	7	–	–	–	–	–	–
N Bossano-Llamas[4]	7	7	–	–	–	–	–	–
P Jenks[5]	2	2	0	1	–	–	–	–
R Gabbertas[6]	2	2	1	1	–	–	–	–
L McCarthy[7]	2	2	1	1	–	–	–	–
S M Choudhry[8]	2	2	1	1	–	–	–	–

1 Lorraine Young resigned on 15 January 2021.

2 Lorna Brown was appointed on 15 May 2020 and resigned on 18 August 2020.

3 Ruth Parasol was appointed on 9 October 2020.

4 Nyreen Bossano-Llamas was appointed on 9 October 2020.

5 Philip Jenks was appointed on 15 February 2021.

6 Richard Gabbertas was appointed on 15 February 2021.

7 Louise McCarthy was appointed on 15 February 2021.

8 Moorad Choudhry was appointed on 15 February 2021.

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.

By order of the Board

Ben Harber
Company Secretary

9 September 2021

Directors' Remuneration report

ANNUAL REPORT ON REMUNERATION

Remuneration committee

The Remuneration Committee was reconstituted on 16 February 2021. The new members of the committee are Philip Jenks, who replaced Colin Wagman as Chair of the Remuneration Committee, Richard Gabbertas, Louise McCarthy and Moorad Choudhry. 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 five times during the year.

The committee consulted Deloitte LLP during the year and received advice on incentives and rewards for the Group.

M Goldstein's salary increased to £350,000 from 1 April 2020 when he became a full-time CEO. A bonus of £275,000 was paid to him in December 2020 to reflect the achievement of Recognise Bank Limited having been granted Authorisation with Restriction as a bank in November 2020, and the successful fundraise undertaken by the Company in October 2020.

REMUNERATION OF EXECUTIVE DIRECTOR

Elements of remuneration

During the year, the remuneration of M Goldstein comprised a base salary and a bonus payment. In addition, he was granted share options under the Share Option Plan 2017 and the Company Share Option Plan 2019.

Base salary

When determining the salary of the executive director, 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 32.

Directors' Remuneration report / continued

Total remuneration for each director

Directors' remuneration for years ended 31 March 2021 and 2020.

Executive directors

For the year ended 31 March 2021	Salary £	Bonus £	All taxable benefits £	Total £
Michael Goldstein	350,000	275,000	2,542	627,542
For the year ended 31 March 2020	**£**		**£**	**£**
Michael Goldstein	212,917	145,000	–	357,917
Paul Milner	100,000	–	–	100,000

Non-executive directors
The remuneration of the non-executive directors, which comprised fees only, was:

	Year ended 31 March 2021 £	Year ended 31 March 2020 £
Lorna Brown (a)	–	–
Moorad Choudhry (b)	12,778	–
Andy Crossley	35,000	31,875
Richard Gabbertas (b)	5,625	–
Philip Jenks (b) (c)	5,250	–
Nyreen Bossano-Llamas (d)	14,346	–
Louise McCarthy (b)	5,125	–
Paul Milner	35,883	–
Ruth Parasol (d)	14,346	–
Colin Wagman (e)	40,000	35,833
Lorraine Young (f)	27,708	31,875

(a) Lorna Brown, who was appointed on 15 May 2020 and resigned on 18 August 2020, received no remuneration.

(b) Remuneration from the period since his/her appointment on 15 February 2021. He/she is also a non-executive director of Recognise Bank Limited, which meets his/her remuneration costs.

(c) Chair since 10 June 2021, following the retirement of Colin Wagman.

(d) Appointed on 9 October 2020.

(e) Chair until his retirement on 10 June 2021.

(f) Resigned on 15 January 2021.

Directors' Remuneration report / continued

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 2021	At 31 March 2020 (a)
Moorad Choudhry	–	–
Andy Crossley	30,000	–
Richard Gabbertas	15,000	15,000
Michael Goldstein	93,750	–
Philip Jenks	35,000	35,000
Nyreen Bossano-Llamas	–	–
Louise McCarthy	–	–
Paul Milner	16,238	16,238
Ruth Parasol	–	–
Colin Wagman	250,000	250,000

(a) At date of appointment if later.

SHARES HELD BY EBT

21,849 shares were held by the Employee Benefit Trust at 31 March 2021 (21,349 at 31 March 2020). The Trustees of the Employee Benefit Trust subscribed for an additional 500 shares at 114.4p each for cash in April 2020.

SHARE OPTIONS

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

	Date of grant	At 31/03/20	At 31/03/21	Exercisable from	Exercisable to	Exercise price
Share Option Plan 2017						
M Goldstein (a)	05/10/17	555,556	388,889	05/10/2020	05/10/2027	90.00p
	31/07/18	344,828	344,828	31/07/2021	31/07/2028	145.00p
	04/12/20	–	712,500	04/12/2023	04/12/2030	80.00p
P Milner (a)	05/10/17	333,333	233,333	05/10/2020	05/10/2027	90.00p
	31/07/18	137,931	137,931	31/07/2021	31/07/2028	145.00p
Company Share Option Plan 2019						
M Goldstein	04/12/20	–	37,500	04/12/2023	04/12/2030	80.00p
		1,371,648	1,854,981			

(a) The Remuneration Committee decided 30% of options issued under the Share Option Plan 2017 on 5 October 2017 should lapse on 5 October 2020 as the performance conditions were not met at the vesting date.

Directors' Remuneration report / continued

SERVICE CONTRACTS

Details of the executive director's service contract 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
Moorad Choudhry (a)	12 July 2021	34 months	1 month	None
Andrew Crossley	13 September 2018	1 month	1 month	None
Richard Gabbertas (a)	12 July 2021	34 months	1 month	None
Philip Jenks (a)	12 July 2021	34 months	1 month	None
Nyreen Bossano-Llamas	9 October 2020	Note (b)	1 month	None
Louise McCarthy (a)	12 July 2021	34 months	1 month	None
Paul Milner	18 May 2020	Note (c)	1 month	None
Ruth Parasol	9 October 2020	Note (b)	1 month	None
Simon Wainwright (a)	24 June 2021	34 months	1 month	None

(a) These directors also have letters of appointment from Recognise Bank Limited, as non-executive directors.

(b) Company is entitled to terminate appointment immediately if Parasol V27 Limited ceases to have a right to appoint directors to the Board.

(c) Company is entitled to terminate appointment immediately if Max Barney Investments Limited ceases to have a right to appoint a director to the Board.

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

Philip Jenks
Chair of Remuneration committee

9 September 2021

Directors' report

This is the Directors' report for the year to 31 March 2021.

RESULTS AND DIVIDENDS

The results for the Group are set out on page 39.
No dividends were declared during the year (2020: 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 operated in three business areas during the year, the first focusing 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.

The Company's subsidiary, Recognise Bank Limited, was granted authorisation with restriction as a bank in November and began trading. It intends to focus on providing banking and associated financial services to the UK SME market. The Company has decided the Group should focus its future activities on providing these services through Recognise Bank, and divest itself of its other two businesses. Acorn to Oaks was sold on 1 April 2021 and an agreement for the sale of Milton Homes, subject to regulatory approval, was signed on 3 September 2021.

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 Brown – appointed 14 May 2020 and resigned on 18 August 2020

L E Young - resigned on 15 January 2021

R M Parasol - appointed on 9 October 2020

N Bossano-Llamas - appointed on 9 October 2020

P A Jenks - appointed on 15 February 2021

R K Gabbertas - appointed on 15 February 2021

L N McCarthy - appointed on 15 February 2021

S M S Choudhry - appointed on 15 February 2021

S Wainwright was appointed to the Board on 10 June 2021.

Biographical details of the current directors are given on pages 22 to 24.

Directors' interests in the shares of the Company are shown in the Directors' Remuneration report on page 32.

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.

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 9 September 2021	%
Parasol V27 Limited	31,250,000	36.39
DV4 Limited	18,816,667	21.91
Max Barney Investments Limited	15,093,101	17.57

The Company has agreements with Parasol V27 Limited, DV4 Limited, Max Barney Investments Limited and Harvey Bard in respect of themselves and certain other people who are considered to comprise a concert party which regulate arrangements with each. These include the entitlement to nominate the appointment of a director or observer to the board of the Company as set out in note 29.

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 96 of this annual report.

SECTION 172 STATEMENT

The Section 172 statement is set out on pages 19 and 20 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 2021.

ANNUAL GENERAL MEETING

This year's annual general meeting will be held at 3.30 pm on 12 October 2021 at the office of the Company at The Royal Exchange, First Floor, 1 Royal Exchange Steps, London EC3V 3DG.

We are keen to welcome shareholders in person to our 2021 Annual General Meeting this year, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, it is possible under guidelines to allow shareholders to attend the AGM and therefore we are proposing to welcome shareholders to attend the AGM within safety constraints and in accordance with government guidelines. Shareholders who cannot attend the AGM should email any questions they have, or would normally raise during the course of the AGM to the Company Secretary (Ben.Harber@shma.co.uk). Given the constantly evolving nature of the COVID-19 situation, should circumstances change before the time of the AGM, we want to ensure that we are able to adapt arrangements, within safety constraints and in accordance with government guidelines. Should we have to change arrangements, we will issue a further communication via a Regulatory Information Service. As such, we strongly recommend shareholders monitor such communications, which can also be found on our website at www.cityoflondongroup.com. Shareholders wishing to appoint a proxy 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 10 – 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. 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 11 – 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 12 – 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 2022, 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 £419,186.32, representing a maximum of 20,959,316 ordinary shares of 2 pence each, equivalent to approximately 20% of the capital of the Company anticipated to be in issue following the General Meeting on 8 September 2021. As stated in the Chair'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 business opportunities arising after Recognise Bank has a full banking licence.

Resolution 13 – 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 £419,186.32 in ordinary shares (that is 20,959,316 ordinary shares of 2 pence each), equivalent to approximately 20% of the issued share capital of the Company (as anticipated following the General Meeting on 8 September 2021), without the shares first being offered to existing shareholders. This resolution will be proposed subject to resolution 12 (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 12.

Resolution 14 – 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 10,479,658 ordinary shares. This represents 10% of the capital of the Company anticipated to be in issue following the General Meeting on 8 September 2021.

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

Directors' report / continued

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 2022, whichever is earlier.

By order of the Board

Ben Harber
Company Secretary

9 September 2021

FINANCIAL STATEMENTS

Consolidated income statement

for the year ended 31 March 2021

		2021 £'000		2020 £'000 (restated)	
	Note	Continuing operations	Discontinued operations (a)	Continuing operations	Discontinued operations (a)
Revenue	4				
Interest income		1,900	–	2,500	–
Other		76	9,890	166	4,389
Cost of sales	4	(13)	(330)	(18)	(295)
Gross profit		1,963	9,560	2,648	4,094
Administrative expenses:	6				
Change in value of business units on reclassification as disposal groups		–	(6,657)	–	–
Provisions for bad and doubtful debts		(138)	–	(1,571)	–
Other		(11,396)	(1,579)	(6,807)	(3,371)
Other income	7	103	11	180	1
(Loss)/profit from operations		(9,468)	1,335	(5,550)	724
Finance expense	9	(651)	(3,863)	(902)	(3,932)
Loss before tax		(10,119)	(2,528)	(6,452)	(3,208)
Tax expense	10	–	(232)	–	(70)
Loss after tax		(10,119)	(2,760)	(6,452)	(3,278)
Loss after tax from discontinued operations		(2,760)		(3,278)	
Loss for the year		(12,879)		(9,730)	
Loss for the year comprises losses from:					
Banking activities, including banking licence application costs (b)		(7,922)		(3,351)	
Discontinued operations		(2,760)		(3,278)	
Other activities		(2,197)		(3,101)	
		(12,879)		(9,730)	
Loss for the year attributable to:					
Owners of the parent		(12,879)		(9,742)	
Non-controlling interests		–		12	
Loss for the year		(12,879)		(9,730)	
Basic and diluted earnings per share attributable to owners of the parent	12				
Continuing operations		(16.84)p		(16.20)p	
Discontinued operations		(4.59)p		(8.26)p	
Total		(21.43)p		(24.46)p	

(a) Discontinued operations in 2021 comprise the businesses operated through:
- Acorn to Oaks Financial Services Limited, a financial services intermediary, which was sold on 1 April 2021; and
- Milton Homes Limited, which administers a portfolio of home reversion plans and was reclassified as a disposal group held for sale in March 2021.

The results for the prior year have been restated.

(b) The loss from banking activities, including banking licence application costs, has been disclosed separately as the award of a full UK banking licence is fundamental to implementation of the Group's medium and long-term strategy.

Consolidated statement of comprehensive income

for the year ended 31 March 2021

	2021 £'000	2020 £'000 (restated)
Loss for the year from continuing operations	(10,119)	(6,453)
Loss for the year from discontinued operations	(2,760)	(3,277)
Total loss for the year	(12,879)	(9,730)
Other comprehensive expense from continuing operations		
Item that will not be reclassified to profit or loss		
Change in fair value of debt securities	–	–
Valuation loss on fair value of legal case investments	–	(130)
Other comprehensive expense from continuing operations	–	(130)
Total other comprehensive expense	–	(130)
Total comprehensive expense from continuing operations	(10,119)	(6,583)
Total comprehensive expense from discontinued operations	(2,760)	(3,277)
Total comprehensive expense	(12,879)	(9,860)
Total comprehensive expense attributable to:		
Owners of the parent	(12,879)	(9,872)
Non-controlling interests	–	12
	(12,879)	(9,860)

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	Attributable to non-controlling interests £'000	Total equity £'000
At 31 March 2019	1,293	(21,672)	–	50,104	4,436	34,161	13	34,174
Loss for the year – continuing operations (as restated)	–	(6,453)	–	–	–	(6,453)	–	(6,453)
Loss for the year – discontinued operations (as restated)	–	(3,289)	–	–	–	(3,289)	12	(3,277)
Other comprehensive expense – continuing operations								
Valuation loss on fair value of legal case investments (note 18(f))	–	(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 non-controlling 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
Loss for the year – continuing operations	–	(10,119)	–	–	–	(10,119)	–	(10,119)
Loss for the year – discontinued operations	–	(2,760)	–	–	–	(2,760)	–	(2,760)
Other comprehensive income – continuing operations								
Change in fair value of debt securities	–	–	–	–	–	–	–	–
Total comprehensive income	–	(12,879)	–	–	–	(12,879)	–	(12,879)
Contributions by and distributions to owners								
Share-based payments	–	182	–	–	–	182	–	182
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 non-controlling interest in Recognise Bank Limited on exercise of put option by minority shareholders	–	(4,480)	–	4,368	112	–	–	–
Issue of shares following cash raise	–	–	–	25,585	675	26,260	–	26,260
Transfer to current liabilities (note 19)	(1,293)	–	–	–	–	(1,293)	–	(1,293)
Total contributions by and distributions to owners	(1,293)	(4,299)	3,648	31,976	(2,833)	27,199	–	27,199
At 31 March 2021	–	(48,652)	3,648	82,775	1,615	39,386	–	39,386

Company statement of changes in equity

	Equity Instrument £'000	Accumulated losses £'000	Capital reserve £'000	Share premium £'000	Share capital £'000	Total £'000
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 18(f))	–	(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
Loss for the year	–	(6,294)	–	–	–	(6,294)
Total expense for the year	–	(6,294)	–	–	–	(6,294)
Contributions by and distributions to owners						
Share-based payments	–	182	–	–	–	182
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
Acquisition of non-controlling interest in Recognise Bank Limited on exercise of put option by minority shareholders	–	–	–	4,368	112	4,480
Issue of shares following cash raise	–	–	–	25,585	675	26,260
Transfer to current liabilities (note 19)	(1,293)	–	–	–	–	(1,293)
Total contributions by and distributions to owners	(1,293)	181	3,648	31,976	(2,833)	31,679
At 31 March 2021	–	(31,370)	3,648	82,775	1,615	56,668

Consolidated balance sheet

as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investment properties	13	–	38,609
Financial assets – equity release plans	14	–	30,343
Intangible assets	15	1,028	2,526
Property, plant and equipment	16	150	96
Right-of-use assets	17	369	650
Loans	20	7,149	3,593
Finance leases	20	988	1,600
Total non-current assets		9,684	77,417
Current assets			
Loans	20	7,496	11,728
Finance leases	20	398	1,087
Trade and other receivables	21	3,071	3,001
Debt securities		6,500	–
Cash and cash equivalents	22	14,493	7,219
		31,958	23,035
Assets in disposal groups classified as held for sale	19	66,294	–
Total current assets		98,252	23,035
Total assets		107,936	100,452
Current liabilities			
Borrowings	23	(4,022)	(7,208)
Trade and other payables	23	(4,424)	(3,881)
Lease liabilities	17	(289)	(298)
		(8,735)	(11,387)
Liabilities directly associated with assets in disposal groups classified as held for sale	19	(56,730)	–
Total current liabilities		(65,465)	(11,387)
Non-current liabilities			
Borrowings	24	(2,976)	(62,615)
Other creditors	24	–	(149)
Lease liabilities	17	(109)	(426)
Deferred tax liability	25	–	(809)
Total non-current liabilities		(3,085)	(63,999)
Total liabilities		(68,550)	(75,386)
Net assets		39,386	25,066
Equity			
Share capital	26	1,615	4,448
Share premium		82,775	50,799
Capital reserve	26	3,648	–
Equity instrument		–	1,293
Accumulated losses		(48,652)	(31,474)
Equity attributable to owners of the parent		39,386	25,066
Non-controlling interests	27	–	–
Total equity		39,386	25,066

The notes on pages 48 to 95 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 9 September 2021.

They were signed on its behalf by

Michael Goldstein

Chief Executive Officer

Company balance sheet

as at 31 March 2021

	Note	2021 £'000	2020 £'000
Assets			
Non-current assets			
Property, plant and equipment	16	92	44
Right-of-use assets	17	369	650
Investment in subsidiary companies	18	46,683	12,088
Investment in Deep Discount Bonds	18	–	9,051
Total non-current assets		47,144	21,833
Current assets			
Loans	20	17	24
Trade and other receivables	21	1,467	7,716
Cash and cash equivalents	22	962	5,215
		2,446	12,955
Assets classified as held for sale	19	9,564	–
Total current assets		12,010	12,955
Total assets		59,154	34,788
Current liabilities			
Borrowings	23	(1,293)	(2,050)
Trade and other payables	23	(795)	(645)
Lease liabilities	17	(289)	(298)
Total current liabilities		(2,377)	(2,993)
Non-current liabilities			
Other creditors	24	–	(86)
Lease liabilities	17	(109)	(426)
Total non-current liabilities		(109)	(512)
Total liabilities		(2,486)	(3,505)
Net assets		56,668	31,283
Equity			
Share capital	26	1,615	4,448
Share premium		82,775	50,799
Capital reserve	26	3,648	–
Equity instrument		–	1,293
Accumulated losses		(31,370)	(25,257)
Total equity		56,668	31,283

The parent company's loss after tax for the financial year amounts to £6,294,000 (2020: loss £6,902,000).
The notes on pages 48 to 95 are an integral part of these financial statements.
The financial statements were approved by the Board and authorised for issue on 9 September 2021.

They were signed on its behalf by
Michael Goldstein
Chief Executive Officer

Consolidated statement of cash flows

for the year ended 31 March 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Loss before tax	(12,647)	(9,660)
Adjustments for:		
Depreciation and amortisation	399	53
Share-based payments	182	340
Provision for bad and doubtful debts	138	1,571
Impairment of goodwill	117	1,555
Change in value of business units on reclassification as disposal groups	6,657	–
Impairment of other investments	–	8
Investment properties and equity release plan financial assets:		
Increases in the fair values of these assets	(6,712)	(1,581)
Realised gains on the disposal of these assets	(1,082)	(695)
Equity transfer income	(1,212)	(1,367)
Interest payable	4,514	4,834
Changes in working capital:		
Increase in trade and other receivables	(692)	(609)
Increase in trade and other payables	1,419	586
Leases advanced	(7)	(1,377)
Leases repaid	1,308	2,308
Loans advanced	(7,914)	(20,432)
Loans repaid	8,452	18,635
Purchase of Debt securities	(6,500)	–
Cash used in operations	(13,580)	(5,831)
Corporation tax	–	(4)
Net cash used in operating activities	(13,580)	(5,835)
Cash flow from investing activities		
Proceeds from the sale of Investment properties and equity release plan financial assets	8,271	6,258
Purchase of Investment properties and equity release plan financial assets	–	(42)
Purchase of CAML 8% Preference Shares	(1,250)	–
Investment in intangible assets	(536)	(545)
Purchase of property, plant and equipment	(127)	(60)
Net cash generated from investing activities	6,358	5,611
Cash flow from financing activities (see note 31)		
Proceeds from issue of ordinary shares	26,260	500
Loans drawn down	294	4,395
Repayment of loans	(10,488)	(12,550)
Distributions to non-controlling interests	–	(25)
Payment of lease liabilities	(357)	–
Interest paid	(443)	(637)
Net cash generated from/(used in) financing activities	15,266	(8,317)
Net increase/(decrease) in cash and cash equivalents	8,044	(8,541)
Cash and cash equivalents brought forward	7,219	15,760
Cash included as Assets in disposal groups classified as held for sale	(770)	–
Net cash and cash equivalents	14,493	7,219

Consolidated statement of cash flows

for the year ended 31 March 2021 / continued

	2021 £'000	2020 £'000
Operating, investing and financing activities are categorised as follows:		
Net cash used in operating activities		
Continuing operations	(12,556)	(4,593)
Discontinued operations	(1,024)	(1,242)
	(13,580)	(5,835)
Net cash generated from investing activities		
Continuing operations	(1,910)	(602)
Discontinued operations	8,268	6,213
	6,358	5,611
Net cash generated from/(used in) financing activities		
Continuing operations	21,442	(4,293)
Discontinued operations	(6,176)	(4,024)
	15,266	(8,317)

Company statement of cash flows

for the year ended 31 March 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Loss before tax	(6,294)	(6,902)
Adjustments for:		
Depreciation and amortisation	318	33
Share based payments	127	133
Provision on investments reclassified as assets held for sale	4,803	–
Provision for losses in subsidiaries	365	6,266
Provision for amounts owed by related parties	13	11
Impairment of other investments	–	8
Dividends from subsidiaries	(94)	(1)
Interest receivable	(1,095)	(1,152)
Interest payable	74	211
Changes in working capital:		
Increase in trade and other receivables	(1,001)	(326)
Increase/(decrease) in trade and other payables	84	(331)
Net cash used in operating activities	(2,700)	(2,050)
Cash flow from investing activities		
Subscription for shares in Recognise Bank	(29,729)	(3,545)
Purchase of CAML 8% Preference Shares	(1,250)	–
Loans advanced to group companies	(415)	(11,649)
Loans repaid by group companies	3,092	8,673
Repayments of Deep Discount Bonds by Milton Homes	1,000	1,500
Purchase of property, plant and equipment	(85)	(12)
Net cash used in investing activities	(27,387)	(5,033)
Cash flow from financing activities (see note 31)		
Proceeds from issue of ordinary shares	26,260	500
Payments of lease liabilities	(357)	–
Loans repaid	–	(1,181)
Interest paid	(69)	(157)
Net cash generated from/(used in) financing activities	25,834	(838)
Net decrease in cash and cash equivalents	(4,253)	(7,921)
Cash and cash equivalents brought forward	5,215	13,136
Net cash and cash equivalents	962	5,215

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 has been operating in three business sectors. Its banking subsidiary, Recognise Bank Limited, received authorisation with restriction from the PRA in November 2020 and has subsequently worked towards receiving a full UK banking licence, which is expected to be received during the third quarter of 2021. The Company has decided the Group should focus its activities on the development and growth of Recognise Bank, which will concentrate on providing finance to the UK SME market, and divest itself of its other operations. Accordingly, its subsidiaries, Acorn to Oaks Financial Services Limited, a financial services intermediary, and Milton Homes Limited, the parent company of a group that administers a portfolio of home reversion plans, were reclassified as disposal groups with their assets and related liabilities reclassified as held for disposal and their businesses as "discontinued operations". Acorn to Oaks Financial Services Limited was sold on 1 April 2021 and the sale of Milton Homes Limited was agreed, subject to regulatory approval, on 3 September 2021 (note 19). Details of the activities of the Group during the year to 31 March 2021 are given in the Strategic report.

These consolidated and separate financial statements have been approved for issue by the Board of directors on 9 September 2021.

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) in conformity with the requirements of the Companies Act 2006. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by investment properties and financial assets at fair value through profit or loss or other comprehensive income, including the revaluation of investment properties and financial assets – equity release plans. These assets were reclassified as assets held for disposal at 31 March 2021 and are included within the Milton Homes Limited disposal group which is carried at its estimated fair value less costs of disposal at 31 March 2021 (note 19).

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 separate 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 17. The Strategic report also includes a Group viability statement on page 18.

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

- the base case and stressed Group cash flow forecasts for the period to 30 September 2022;
- 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 future UK economic outlook and actions the Group could take to mitigate the impact on the business;
- the completion of all mobilisation conditions set by the PRA as a requirement for Recognise Bank to obtain a full banking licence with no restrictions; and
- the raising of further capital to support the growth of Recognise Bank.

Following the announcement on 23 August 2021 of the subscription of £11.4m from two of the Group's major shareholders (note 35), the directors are confident Recognise Bank will shortly be in a position to obtain a full banking licence and become a deposit-taking bank.

As part of the Group's base case scenario, a further capital raise is planned in the first quarter of 2022 to support the further development of Recognise Bank's

Notes to the financial statements / continued

business. The Group has considered the effect of a six months' delay in the capital raise. While Recognise Bank would have to reduce the planned expansion in its lending, it would continue to meet its regulatory and capital requirements throughout the period.

As a worst case scenario, the Group has considered the position if the capital invested in Recognise Bank during the period to 30 September 2022 were no more than the minimum required for it to exit mobilisation. In this event, Recognise Bank would reduce its operating costs, primarily by containing and reducing salary costs, and delay planned capital expenditure as well as curtailing its lending plans. These management actions would ensure that Recognise Bank would again continue to meet regulatory and capital requirements throughout the period to 30 September 2022.

In addition to scenarios outlined above, Recognise Bank has carried out a reverse stress test as part of the ICAAP. This proved to be satisfactory.

2.2 Adoption of new standards and interpretations

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

- 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

There was no impact on the Group following the adoption of the above.

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 2023 unless otherwise stated, have not yet been endorsed by the United Kingdom.

Amendments to IAS 1: Classification of liabilities as current or non-current

Amendments to IAS 1 and IFRS Practice Statement: Disclosure of Accounting Policy

Amendments to IAS 8: Definition of Accounting Estimate

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 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 profit/(loss) 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.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

2.5 Business combinations

The Group uses the acquisition method of accounting to account for business combinations, including those of businesses under common control. 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 developed by Recognise Bank 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 begins 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 amortisation began in December 2020 after Recognise Bank Limited began trading following the receipt of authorisation with restriction 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

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

Notes to the financial statements / continued

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.

Following the decision to classify Milton Homes as a discontinued operation, the investment properties held by Milton Homes have been transferred to the Milton Homes disposal group (note 19).

(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 as 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.

Following the decision to classify Milton Homes as a discontinued operation, the financial assets – equity release plans held by Milton Homes have been transferred to the Milton Homes disposal group (note 19).

(b) Loans, trade and other receivables

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 rate method, less provision for impairment under IFRS 9 which is recognised in the consolidated income statement. 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.

(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 accounts for finance leases and hire purchase agreements under IFRS 9.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

(d) Debt securities

Debt securities are UK government bonds and Treasury Bills which are held by Recognise Bank Limited as high quality liquid assets. These are debt instruments which are acquired under a hold to collect and sell business model and are subsequently measured at fair value through other comprehensive income ('FVOCI').

(e) 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').

(f) Investment in subsidiaries – separate financial statements

Investments in subsidiaries are accounted for at cost less impairment.

(g) 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.

Following the decision to classify Milton Homes as a discontinued operation, the Company's investment in Milton Homes, being its holding of ordinary shares and Deep Discount Bonds, has been reclassified as Assets classified as held for sale and is carried at its estimated net realisable value as at 31 March 2021 (note 19).

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.

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. The receipt of information on existing or future adverse changes affecting a customer, in conjunction with an expert credit risk assessment, would result in such an assessment, which is made at individual agreement level.

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

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

Qualitative criteria: contractual payments are less than 90 days past due but, having regard to known

Notes to the financial statements / continued

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 is applied to assess the LGD of an agreement.

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

The Group currently uses two models for assessing the IFRS 9 provisions:

(a) internally-developed model for the lease and loan portfolio held by CAML/ PFL, which is now in its run-off phase; and

(b) model developed with a third party managed service provider for the credit portfolio held by Recognise Bank.

(b) Property bridging loans:

In view of their short-term nature, property bridging loans are considered individually when assessing lifetime expected losses to be recognised under IFRS 9. A property bridging loan is secured over the property for which the loan is advanced with the directors/ sponsors also providing 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:

Loans and similar balances between the Company and its subsidiaries are considered individually when assessing whether it is necessary under IFRS 9 to recognise lifetime expected losses.

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. While City of London Group plc Rollover Loan Notes due 2021 ("Rollover Loan Notes") were classified as equity instruments on issue in January 2019, they were reclassified as current liabilities at 31 March 2021 as the consideration receivable under the terms for the sale of Acorn to Oaks Financial Services Limited on 1 April 2021 was settled by the cancellation of the Rollover Loan Notes (note 19).

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 rate method.

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.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

2.18 Leases

The Group recognises right-of-use assets and lease liabilities for 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.

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 considered individual balances when assessing whether it is necessary under IFRS 9 to recognise lifetime expected 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.

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 by 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 three equity-settled share-based payment compensation plans 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 by the employing company of employees granted share options. 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 likely that future taxable profits will be available against which the temporary differences can be utilised.

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.

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3 Judgements and estimates continued

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.

As these are assets within the Milton Homes disposal group (note 19), they are included as current assets at 31 March 2021 as part of the Milton Homes disposal group, which is carried at its estimated fair value. The sections on the Valuation method and Valuation assumptions below set out the basis of the valuation made as at 31 March 2021 immediately prior to their reclassification and transfer to the Milton Homes disposal group. The revenue recognised in the consolidated income statement for the year ended 31 March 2021 has been determined using this valuation basis.

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 2017-19. 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.

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

Notes to the financial statements / continued

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 5.25% to 7.5%. 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.

The valuation issued by the external valuer as at 31 March 2020 included a material uncertainty clause in accordance with the mandatory requirement introduced by RICS on 17 March 2020 as a result of the COVID-19 pandemic. While some adjustments were made to the marketability ratings of properties to reflect an anticipated increase in the length of time before a sale, it was concluded it would be inappropriate to make what would have been at that time arbitrary adjustments to vacant possession values or deviate from the established methodology. In his valuation as at 31 March 2021, the external valuer has reverted to the marketability ratings of properties used previously.

(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 Bank Limited (previously Recognise Financial Services Limited) ("Recognise Bank") received authorisation with restriction (AwR) from the PRA/ FCA on 10 November 2020 which enabled it to commence banking activities and progress towards meeting the mobilisation conditions set by the PRA/ FCA, and hence the grant of a full UK banking licence. To facilitate the development of Recognise Bank, the Company subscribed for additional shares in Recognise Bank during the year, investing a further £34,586k. The Company's cost of investment in Recognise Bank increased by an additional £4,480k in respect of the consideration given for the 28% equity interest acquired from the minority shareholders on the exercise of their put option in September 2020. The Company's total investment in Recognise Bank at 31 March 2021 was £44,673k. A further £1,500k was invested in May 2021 to support growth in Recognise Bank's lending activities. The most recent projections made by Recognise Bank show that, subject to the receipt of a full UK banking licence and the planned increase in its capital base, the business will have sufficient funds to support the development of its business for at least 13 months. The directors consider that it is appropriate to continue to carry the investment at cost as it is anticipated Recognise Bank will meet the requirements of the PRA/ FCA and be granted a full UK licence in the third quarter of 2021.

The directors have considered the carrying value of the Company's investment in Credit Asset Management Limited ('CAML') whose loan and lease portfolios are now in their run-off phase following the Board's decision in March 2020 to cease doing further lending through CAML.

In addition to its existing investment in CAML ordinary shares, the Company purchased 30.2% of the CAML 8% Redeemable Preference shares in issue for £1,250k during the year. The consideration paid was the sum of the face value of the shares and the accrued but unpaid dividend at the date of purchase.

Forecasts for the remainder of the five-year run-off period show that CAML will not require financial support during this period as operating costs reduce progressively during the portfolio run-off. Accordingly, after deducting the amounts attributable to the holders of CAML's 8% Preference Shares at 31 March 2021, which include preference dividends accrued to date, the fair value of the ordinary shares has been assessed by reference to the net assets attributable to ordinary shareholders. The amount attributable to the investment in ordinary shares at that date was £760k while the fair value of the 8% Redeemable Preference shares was £1,250k. Accordingly, a provision of £248k has been made to reduce the carrying amount of the overall investment in the CAML ordinary and preference shares to £2,010k.

Following the decision by the directors that the Group should focus on the development and growth of Recognise Bank and, accordingly, divest itself of its other activities, both Acorn to Oaks Financial Services Limited and Milton Homes Limited were reclassified as assets held for sale and have been included in the Company's accounts as current assets at their estimated net realisable value after allowing for disposal costs. The fair value of Acorn to Oaks Financial Services Limited at 31 March 2021 was £1,114k, which is the net consideration received for the shares when they were sold on 1 April 2021. The fair value of the Company's investment in the

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3 Judgements and estimates continued

ordinary shares and Deep Discount Bonds issued by Milton Homes following their reclassification as assets held for sale has been assessed as £8,450k on the basis of recent proposals received from third parties interested in buying Milton Homes.

(c) Provisions for impairment of financial assets

Current lease and loan portfolio, excluding property bridging loans

Recognise Bank credit portfolio

The IFRS 9 model that is being used by Recognise Bank to calculate the provision under IFRS 9 has been developed with a third party managed service provider. Calculations within the model are performed at an account level using a bottom-up approach, which facilitates the best estimate of the provision required. A scenario-based approach is used to forecast the probability weighted unbiased expectation of future losses.

As Recognise Bank did not make any loans until after it received authorisation with restriction as a bank in November 2020, the components within the model required to forecast ECL have been calibrated based on expert judgement and external data and benchmarking.

Forward looking macro-economic scenarios

As IFRS 9 is a forward-looking measure of impairment, economic scenarios were used to build economic models to forecast indicative credit conditions over a 15-year period. Economic scenarios obtained from a third party supplier were combined with econometric models to forecast the Credit Cycle Index (CCI). Data from the third party was used to create suitable indices that most closely represent the types of customers that Recognise Bank will serve.

Following testing of various economic variables, it was found that only GDP was a significant driver for both the cyclical and non-cyclical models.

Four macroeconomic scenarios were modelled as follows:

- Upside
- Forecast
- Moderate
- Severe

Assumptions in the model components

Assumptions were made for each component within the model (Probability of default (PD), Loss Given Default (LGD), and Exposure at Default (EAD)) to ensure the model produces results that are plausible and reliable. The assumptions were calibrated in workshops with expert input from management and supported by benchmarking data from industry peers.

Probability of Default (PD)

Through-the-Cycle (TtC) PD, which refers to the long-run default rate across the economic cycle or under average economic conditions, and asset correlation (p), which describes how sensitive the portfolio is to a change in the economic cycle, serve as input in calculating the Forward-in-Time (FiT) PD. These parameters were calibrated with expert input from management to best suit the characteristics for Recognise Bank's portfolio.

Loss Given Default (LGD)

LGD measures the loss that will be incurred if a loan defaults. Separate LGD models are being used for secured and unsecured loans.

Exposure at Default (EAD)

An amortisation schedule that considers interest, fees and arrears is used for amortising elements of the credit portfolio while the periodic payments on interest only loans are assumed to equal the interest charge. The model assumes no prepayments on loans will be made. It is also assumed that the probability of instantly repaying the loan in full and closing the account in a non-default state is 0%.

Expected Credit Losses (ECL)

IFRS 9 rules require that the ECL for each scenario is risk weighted to provide an overall weighted ECL figure. The ECL figure varies depending upon the weightings applied and determines the provision to be recognised at the balance sheet date. The following weightings were used to obtain the overall risk ECL.

- Upside (5%)
- Forecast (45%)
- Moderate (45%)
- Severe (5%)

The credit portfolio as at 31 March 2021 was £6,565,000 (2020: nil). Application of the model generated a Stage 1 IFRS 9 impairment provision as at 31 March 2021 of £4,000 (2020: nil).

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CAML/PFL lease and loan portfolio

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') has been generated using its existing internally-developed model. The application of the methodology and the model have been developed over the period, and reflect changes arising from the COVID-19 pandemic.

The impact on SME businesses as government assistance is withdrawn progressively as COVID-19 restrictions are lifted remains uncertain. While some business sectors have been relatively unaffected to date, others, such as hospitality and leisure, have been affected badly by the periodic lockdowns and restrictions. There is likely to be further pressure on SME businesses which will affect the level of future defaults and the probable level of losses in both the short and medium term.

The following changes have been made when assessing the IFRS 9 provision as at 31 March 2021:

- agreements with customers operating in the hospitality and leisure sectors which would otherwise have been in Stage 1 have been re-categorised as Stage 2 agreements and a whole-life ECL calculated for the IFRS 9 provision; and
- the LGD overlay has been modified to use historic actual recovery rates for different risk codes within the portfolio.

The lease and loan portfolio entered its run-off phase in March 2020 following the decision of the Group to pause lending and originate all new lending through Recognise Bank. The size of the portfolio decreased by £8,619,000 to £6,114,000 over the year as agreements moved towards maturity or were repaid early by customers.

There are four product areas within the lease and loan portfolio: finance lease, hire purchase, commercial loans and professions loans, with risk codes from 1 – 4 assigned to each agreement. The portfolio is widely spread with borrowers operating in the SME market across the UK economy.

Agreements 30+ days in arrears and agreements relating to the hospitality and leisure sectors are categorised as Stage 2 agreements, with the ECL being calculated for the whole remaining life of the agreement and not only for the next 12 months.

Under IFRS 9, current provisions take account of probable future defaults that will arise from future events. As the CAML/PFL portfolio has limited concentration in any one sector or geographical area, the CAML/ PFL IFRS 9 model uses UK GDP growth percentages derived from information produced by the Office for National Statistics. As this metric is not considered adequate in the present economic environment, an overlay which reflects the continuing impact of the COVID-19 pandemic on the future performance of the CAML/PFL portfolio is applied in the model.

CAML/PFL contacted the majority of its customers in March and April 2020 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 if there are 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 categorised as 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 scheduled payments). A follow-up programme to contact larger customers and those with agreed moratoriums/ payment holidays was carried out in June and July.

CAML/PFL maintained close contact with customers throughout the year, granting extensions to moratoriums and additional moratoriums where appropriate. The information from all customer contacts during the year informed the IFRS 9 provisioning process for all agreements, irrespective of whether they are categorised as Stage 1, 2 or 3.

Specific provisions are made for agreements categorised as Stage 3 agreements (ie in default) on an individual basis by management who use expert judgement as well as any external information available to assess the appropriate level of provision. When considering future recoveries, management has also considered 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 agreements.

The results of the extensive customer contact programmes in the year have been fed back into the assessment of the IFRS 9 provision in several ways.

Approximately a third of customers contacted in the follow-up programme in June and July requested a new or extended moratorium on payments although 86% of the portfolio net investment overall was categorised as

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either "yellow" or "green" on the basis of information given by customers. This 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. In the model, it was decided that 56% of the portfolio net investment overall should be categorised as either yellow or green. The reduction of 30% allows for the optimism bias of customers as well as increased credit risks associated with extended repayment periods on rescheduled agreements and the uncertainty on the future economic outlook for SME businesses as government assistance is withdrawn.

All "red" category agreements were immediately categorised as Stage 3 agreements for IFRS 9 purposes, irrespective of whether they were currently in arrears.

Forward-looking macro-economic factors

In addition to the base forward-looking economic scenario, the model considers two other scenarios – one with stronger economic growth (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 forward-looking macro-economic factors used 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 change to GDP growth percentage forecast for the year to 31 March 2021 in the model was:

Year to 31 March **Scenario**	**2021** **% contraction**
Best	(3.33)
Base	(5.18)
Worst	(6.75)

The model generated the following factors for the 12 months to 31 March 2021 when applied to the average annual percentage of 0.83% over the 5-year base period to 31 March 2020:

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

The forward-looking factors used for the current year have been based on the above as modified by information obtained through the customer contact programmes during the year. The information from customers was directly relevant to the assessment of the future performance of the portfolio, 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 a Stage 1 IFRS 9 impairment provision of £371,000 and a Stage 2 IFRS 9 impairment provision of £53,000 at 31 March 2021.

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. The percentage LGD increases shown in the table below are based on external information and management expert opinion as well as historic outcomes on the CAML/PFL portfolio. The multiplier used for each risk code is derived from the historic LDGs for that risk code: it varies from 1 to 2.46. These increases were applied in the model.

Recovery category	**LGD increase %**	**Applied to portfolio**
Guarantees	15% base + multiplier[(a)]	Professions loans and Commercial loans
Assets	20% base + multiplier[(a)]	Lease and hire purchase

(a) multiplier derived from CAML/PFL's historic LDGs for various risk codes.

Notes to the financial statements / continued

PD: The model uses forecast changes in GDP growth % as a forward predictor of changes in PD for the portfolio, with larger changes in GDP growth % having an increasingly material impact on the PDs. Where sharp falls or increases in GDP are forecast over a short period, the model predicts large increases or falls in PDs which do not properly reflect information obtained directly from the customer contact programmes on customers' own assessments of their ability 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 £36,000 (2020: £139,000) was also included to take account of the estimated reduction in future amounts recoverable under guarantees and from the sale of assets due to the continuing economic uncertainties associated with 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% base + multiplier[(a)]	Professions loans and Commercial loans
Assets	20% base + multiplier[(a)]	Lease and hire purchase

(a) multiplier derived from CAML/PFL's historic LDGs for various risk codes.

The Stage 3 IFRS 9 impairment provision, including the COVID-19 overlay provision, as at 31 March 2021 was £1,959,000 (2020: £1,756,000).

The provision for impairment of loans and leases as at 31 March 2021 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

Each property bridging 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. Due to the short term nature of these loans, these are considered individually to assess lifetime expected losses. Following an assessment as at 31 March 2021 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 individually to determine whether it is necessary under IFRS 9 to recognise lifetime expected 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	2021 £'000	2020 £'000
Milton Homes (a)	9,005	3,643
CAML (b)	1,130	2,035
Property & Funding Solutions (c)	770	631
Acorn to Oaks (d)	885	746
Recognise Bank (e)	76	–
	11,866	7,055
Continuing operations	1,976	2,666
Discontinued operations	9,890	4,389
Total	11,866	7,055
(a) Milton Homes		
Profit on disposal of investment properties	767	455
Gain on revaluation of investment properties	3,953	1,138
Profit on the disposal of equity release plan financial assets	315	240
Gain on revaluation of equity release plan financial assets	2,759	443
Equity transfer income arising under equity release financial assets plans	1,211	1,367
	9,005	3,643
(b) CAML		
Loan and lease interest	1,127	1,979
Arrangement fees	3	56
	1,130	2,035
(c) Property & Funding Solutions		
Property bridging loan interest	697	521
Arrangement fees for property bridging loans	73	110
	770	631
(d) Acorn to Oaks		
Commission	601	499
Fees	284	247
	885	746
(e) Recognise Bank		
Loan interest	76	–
	76	–
Cost of sales		
Commissions and introduction fees	343	313
	343	313
Continuing operations	13	18
Discontinued operations	330	295
Total	343	313

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 which, during the year, comprised the provision of home reversion plans to the equity release market, loan, lease and professions financing and financial services intermediary. Following receipt of AwR in November 2020, Recognise Bank commenced banking activities and continued the process of moving towards meeting mobilisation conditions set by the PRA/ FCA. 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 2021

		Revenue £'000	Operating profit/(loss) £'000	Finance expense £'000	Quasi-equity intra group payments (a) £'000	Profit/(loss) before tax £'000
COLG	Intra-Group	1,096	1,851	–	–	1,851
	Change in value of business units on reclassification as disposal groups	–	(6,657)	–	–	(6,657)
	Other	–	(3,008)	(74)	–	(3,082)
		1,096	(7,814)	(74)	–	(7,888)
Banking activities, including banking licence application costs		76	(7,894)	(28)	110	(7,812)
Loan, lease and professions financing						
Asset based finance, commercial and professional loans		1,130	240	(471)	(66)	(297)
Property bridging finance		770	422	(78)	(235)	109
Other		–	(7)	–	–	(7)
Home reversion plans		9,005	8,007	(3,859)	(905)	3,243
Financial services intermediary		885	9	(4)	–	5
Intra-Group		(1,096)	(1,096)	–	1,096	–
		11,866	(8,133)	(4,514)	–	(12,647)
Continuing operations		1,976	(9,468)	(651)	–	(10,119)
Discontinued operations (b)		9,890	1,335	(3,863)	–	(2,528)
		11,866	(8,133)	(4,514)	–	(12,647)

(a) Quasi-equity intra group payments during the year comprise interest payable to COLG and Recognise Bank.

(b) Including change in value of business units on reclassification as disposal groups.

Notes to the financial statements / continued

5 Segmental reporting continued

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)
Continuing operations		2,666	(5,550)	(902)	–	(6,452)
Discontinued operations		4,389	724	(3,932)	–	(3,208)
		7,055	(4,826)	(4,834)	–	(9,660)

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

Consolidated Net Assets

For the year ended 31 March 2021

		Total £'000
COLG	Bank	44,673
	Loan, lease and professions financing	2,010
		46,683
	Assets classified as held for sale	9,564
	Other net assets	421
Net assets per entity balance sheet		56,668
Other net liabilities of subsidiary companies		(17,282)
Consolidated Net Assets		39,386

Notes to the financial statements / continued

Consolidated Net Assets

For the year ended 31 March 2020

		Total £'000
COLG	Home reversion plans	13,449
	Bank	5,552
	Loan, lease and professions financing	5,575
	Financial services intermediary	1,130
		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

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

6 Administrative expenses

	2021 £'000	2020 £'000
Staff		
Payroll (see note 8)	8,583	5,443
Other staff costs	274	43
Establishment costs		
Property costs	588	648
Other, including IT costs	1,446	959
Auditor's remuneration (see below)	345	301
Legal fees	64	192
Consultancy fees	218	659
Other professional fees	1,033	750
Provisions for bad and doubtful debts under IFRS 9	138	1,571
Provision for goodwill impairment	117	1,555
Change in value of business units on reclassification as disposal groups	6,657	–
Depreciation and amortisation	399	53
Reduction in deferred consideration	(92)	(425)
Total administrative expenses	19,770	11,749
Continuing operations	11,534	8,378
Discontinued operations	8,236	3,371
	19,770	11,749

Directors' emoluments are shown in the Directors' Remuneration report on page 31.

Notes to the financial statements / continued

6 Administrative expenses continued

Auditor's remuneration	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	94	86
Fees payable to the Company's auditor for other services:		
The audit of subsidiaries pursuant to legislation	247	187
Audit related assurance services	4	4
Tax services	–	24
Total fees	345	301

7 Other income

	2021 £'000	2020 £'000
Sundry income	114	181
Continuing operations	103	180
Discontinued operations	11	1
Total	114	181

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	2021	2020
COLG	10	10
Recognise Bank	38	16
Loans, lease and professions financing	7	13
Home reversion plans	7	7
Financial services intermediary	14	9
	76	55
Continuing operations	55	39
Discontinued operations	21	16
Total	76	55

Notes to the financial statements / continued

The aggregate payroll costs of these employees were as follows:

	2021 £'000	2020 £'000
Wages and salaries	7,436	4,470
Social security costs	760	503
Pensions	205	130
Share based payments	182	340
	8,583	5,443
Continuing operations	7,674	4,584
Discontinued operations	909	859
Total	8,583	5,443

9 Finance expense

	2021 £'000	2020 £'000
Loan interest	615	871
Interest expense on lease liabilities	31	2
Finance expense on deferred consideration	5	29
Total from continuing operations	651	902
Total from discontinued operations	3,863	3,932
	4,514	4,834

10 Tax expense

	2021 £'000	2020 £'000
UK corporation tax		
Current year charge	–	6
Prior year charge	–	–
Deferred tax		
Relating to origination and reversal of temporary differences	232	64
Total tax expense	232	70
Continuing operations	–	–
Discontinued operations	232	70
	232	70

Notes to the financial statements / continued

10 Tax expense continued

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% (2020: 19%). The differences are explained below.

Tax reconciliation	**2021 £'000**	**2020 £'000**
Loss before tax	(12,647)	(9,660)
At standard rate of corporation tax in the UK:	(2,403)	(1,835)
Effects of		
Items not deductible for tax purposes	1,572	447
Profit on revaluation of assets offset by brought forward losses	(751)	(216)
Other tax adjustments	208	75
Movement on unrecognised deferred tax asset	1,606	1,599
	232	70

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 (2020: nil).

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).

	2021	**2020 (restated)**
Loss attributable to equity holders (£'000)		
Continuing operations	(10,119)	(6,452)
Discontinued operations	(2,760)	(3,290)
Total	(12,879)	(9,742)
Weighted average number of ordinary shares in issue (£'000)	60,090	39,831
Basic and diluted earnings per share		
Continuing operations	(16.84)p	(16.20)p
Discontinued operations	(4.59)p	(8.26)p
	(21.43)p	(24.46)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.

Notes to the financial statements / continued

13 Investment properties

At valuation	2021 £'000	2020 £'000
At 1 April	38,609	41,040
Additions	–	12
Disposals	(4,406)	(3,581)
Revaluations	3,953	1,138
	38,156	38,609
Reclassify as asset held for sale	(38,156)	–
At end of period	–	38,609
Investment properties	–	33,505
Investment properties held for sale (a)	–	5,104
	–	38,609
Numbers of properties		
At 1 April	248	271
Disposals	(19)	(23)
At 31 March	229	248

(a) On vacant possession having been obtained.

The external valuer included a material uncertainty clause in his valuation as at 31 March 2020 in accordance with the mandatory requirement introduced by RICS on 17 March 2020 (see note 3(a)).

14 Financial assets – equity release plans

At valuation	2021 £'000	2020 £'000
At 1 April	30,343	30,485
Additions	–	30
Equity transfer	1,212	1,367
On ending of plans	(2,782)	(1,982)
Revaluations	2,759	443
	31,532	30,343
Reclassify as asset held for sale	(31,532)	–
At end of period	–	30,343
Financial assets – equity release plans	–	27,987
Financial assets – equity release plans held for sale (a)	–	2,356
	–	30,343
Numbers of properties		
At 1 April	225	239
Disposals	(17)	(14)
At 31 March	208	225

(a) On vacant possession having been obtained.

The external valuer included a material uncertainty clause in his valuation as at 31 March 2020 in accordance with the mandatory requirement introduced by RICS on 17 March 2020 (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 2019	3,558	–	3,558
Additions in year	57	545	602
As at 31 March 2020	3,615	545	4,160
Additions in year	–	536	536
Reclassified as assets held for sale	(3,615)	–	(3,615)
As at 31 March 2021	–	1,081	1,081
Accumulated amortisation and impairment			
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
Charge in year	117	52	169
Reclassified as assets held for sale	(1,750)	–	(1,750)
As at 31 March 2021	–	53	53
Carrying amount			
As at 31 March 2021	–	1,028	1,028
As at 31 March 2020	1,982	544	2,526

Milton Homes – home reversion plans

Immediately before the reclassification of Milton Homes as a disposal group, the Company carried out an assessment as to whether there had been a further impairment in the value of the goodwill relating to Milton Homes which had a carrying amount of £1,004,000 at 31 March 2021. A provision for impairment of £117,000 was made as at 30 September 2020 on the basis of an interim impairment review, reducing the carrying amount of the goodwill to £1,004,000.

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 held interests in 437 properties at 31 March 2021.

Milton Homes has prepared long term cash forecasts for the 15 years up to 31 March 2036 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.

The base case assumes an HPI increase of 4% per annum over the 15-year period, which is the historic long-run HPI percentage increase and reflects the recent increased activity in the housing market since July 2020. Sensitivity calculations have been done with assumed HPI rates varying from nil to 6% per annum over the fifteen-year period.

An HPI increase of 4% per annum over the 15-year period, which is the historic long-run HPI percentage and reflects the increased activity in the housing market since July 2020 was selected as the base case after sensitivity calculations had been done with various assumed HPI rates. The forecast future cash flows were discounted at 6% per annum to determine the value in use of the net amount invested in Milton Homes. The discount rate, which is unchanged from that used in the previous year, was chosen as Milton Homes is an asset-based group holding UK residential property.

Notes to the financial statements / continued

The net present value of the discounted future cash flows as at 31 March 2021 for the base case exceeded the net assets of Milton Homes by £1,332,000. As this amount exceeds the carrying value at that date, no further provision for impairment of goodwill was required prior to its reclassification and remeasurement as an asset within the Milton Homes disposal group (note 19).

Acorn to Oaks – financial services intermediary

Prior to reclassifying Acorn to Oaks as a disposal group, the Company carried out an assessment as to whether there had been a further impairment in the value of the goodwill relating to the business.

While both its current operations and future expansion plans have been adversely affected by the COVID-19 pandemic, it was concluded there had been no material change in the value of the goodwill over the period. The assessment was made using cash forecasts for the 5 years up to 31 March 2026 based on profit forecasts which assume that the profitability of the business increases following the COVID-19 pandemic for two years and remains stable thereafter, followed by the sale of the business at that date. Sensitivity calculations were done for various levels of profitability ranging from £175,000 to £270,000 per annum and sales proceeds between £600,000 and £900,000. Having regard to variations in medium-term growth forecasts for the UK SME market, it was concluded long-run profits would be in the range of £220,000 to £260,000 per annum with a capital value at 31 March 2026 of between £735,000 and £870,000.

The future cash flows were 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 2021 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 £260,000 and capital value at 31 March 2026, produced a figure for the current value of the goodwill that was broadly unchanged from that at 31 March 2020. Accordingly, no further provision for impairment was made (2020: £574,000).

16 Property, plant and equipment

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Cost				
At 1 April	192	132	73	61
Additions	127	60	85	12
Disposals	(39)	–	–	–
Reclassify as assets held for sale	(24)	–	–	–
At 31 March	256	192	158	73
Depreciation				
At 1 April	96	59	29	11
Charge for the year	66	37	37	18
Disposals	(38)	–	–	–
Reclassify as assets held for sale	(18)	–	–	–
At 31 March	106	96	66	29
Net book value				
At 31 March	150	96	92	44

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

Notes to the financial statements / continued

17 Leases

Right-of-use assets

Property lease	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
At 1 April	650	–	650	–
Additions	–	665	–	665
Amortisation	(281)	(15)	(281)	(15)
At 31 March	369	650	369	650

The property lease comprises office premises leased by the Company in March 2020 under a lease expiring on 24 July 2022, with a fixed periodic rent over the term. 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 for a period of less than one year or were categorised as low value leases. The Group opted to recognise the lease expense for these on a straight-line basis as permitted by IFRS 16.

Lease liabilities

Property lease	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
At 1 April	724	–	724	–
Additions	–	734	–	734
Interest expense	31	2	31	2
Lease payments	(357)	(12)	(357)	(12)
At 31 March	398	724	398	724
Amount due within one year	289	298	289	298
Amount due after one year	109	426	109	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:

	2021 £'000	2020 £'000
Short-term lease expense	137	232
Low value lease expense	11	–
Aggregate commitments for short-term leases	6	79

Notes to the financial statements / continued

18 Investments

Company	Investment in Deep Discount Bonds £'000	Investments in subsidiaries £'000	Total £'000
Cost			
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
Additions in year	–	40,372	40,372
Repayments in year	(1,000)	–	(1,000)
Increase in value over period (i)	905	–	905
	8,956	61,154	70,110
Reclassify as asset held for sale	(8,956)	(10,435)	(19,391)
As at 31 March 2021	–	50,719	50,719
Provision for impairment			
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
Addition in year	–	365	365
	–	9,059	9,059
Reclassify as asset held for sale	–	(5,023)	(5,023)
As at 31 March 2021	–	4,036	4,036
Carrying amount			
As at 31 March 2021	–	46,683	46,683
As at 31 March 2020	9,051	12,088	21,139

(i) being interest accrued in the year

As explained in note 19, the Company decided to sell both Milton Homes Limited and Acorn to Oaks Financial Services Limited and focus its activities on its investment in Recognise Bank Limited. Accordingly, the investments in both companies have been reclassified as assets held for sale. Acorn to Oaks Financial Services Limited was sold on 1 April while the sale of Milton Homes was agreed, subject to regulatory approval, on 3 September 2021.

Notes to the financial statements / continued

18 Investments continued

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

In April 2020, the Company subscribed a further £2,600,000 in cash (2020: £3,545,000) for deferred shares in Recognise Bank which were issued at par. In August 2020, following a change of designation and a consolidation of share capital by Recognise Bank, the 8,145,000 deferred shares held by the Company became 8,145,000 A ordinary shares of £1 each.

On 4 September 2020, Recognise Bank became a wholly-owned subsidiary of the Company when, following the receipt by Recognise Bank of its TCR letter, the minority shareholders in Recognise Bank exercised their put option under the terms of the Recognise Shareholders' Agreement and sold their interest in the equity to the Company for a consideration of £4,480,000 which was satisfied by the issue of the Company's ordinary shares (see note 26).

After allowing for the costs associated with the capital raise in October, the Company applied the funds raised to subscribe a further £25,917,171 in cash for A ordinary shares in Recognise Bank during the year.

The ownership of Property & Funding Solutions Ltd ("PFS") was transferred from the Company to Recognise Bank in October, with the total consideration of £6,069,359 being satisfied by the issue of shares by Recognise Bank. In addition to the transfer of the PFS shares, a loan of £4,857,114 was assigned from the Company to Recognise Bank and a cash injection of £1,212,145 made.

The share-based remuneration expense relating to share options issued to employees of Recognise Bank under the Share Option Plans in December 2020 of £55,000 (2020: nil) has been included as part of the investment in Recognise Bank.

The additional investment during the year was made to facilitate Recognise Bank's application for a UK banking licence and provide the necessary capital base from which it could develop its lending operations.

The cost of the investment in Recognise Bank at 31 March 2021 was £44,673,000 (2020: £5,552,000).

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

Following the decision of the Company in March 2021 to consider proposals from third parties interested in purchasing Milton Homes, both the investment in the ordinary shares and the Deep Discount Bonds issued by Milton Homes have been reclassified as assets held for sale. A provision for impairment in the value of the investment in ordinary shares of Milton Homes of £117,000 (2020: £3,848,000) was made as at 30 September 2020 on the basis of an interim impairment review at that date.

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

Following the decision of the Company to focus its activities on its investment in Recognise Bank, the investment in Acorn to Oaks was sold on 1 April 2021 to Jason Oakley and his wife, Claire Oakley, who were the majority shareholders prior to its purchase by the Company. The investment in Acorn to Oaks has been reclassified as an asset held for sale at 31 March 2021.

Deferred consideration under earn-out provisions was payable on the basis of the profits of Acorn to Oaks over the three years to 31 March 2022. This is no longer payable as a result of the sale of Acorn to Oaks on 1 April 2021 and, accordingly, the deferred consideration creditor of £92,000 held at 31 March 2021 has been released and credited to the consolidated income statement (2020: £425,000 credited).

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

During the year the Company purchased 30.2% of the CAML 8% Redeemable Preference Shares in issue for £1,250,000. The consideration paid was the sum of the face value of the shares and the accrued but unpaid dividend at the date of purchase. Following a reassessment of the fair value of the overall investment in CAML as at 31 March 2021, a further provision for impairment of £248,000 (2020: £1,457,000) has been made in respect of the ordinary shares, reducing their carrying amount to £760,000 (2020: £1,008,000). No provision has been made in respect of the CAML 8% Redeemable Preference Shares which are carried at cost (see note 3(b)).

Notes to the financial statements / continued

(e) Investments

Details of investments are as follows:

Company subsidiary undertaking	Nature of business
Recognise Bank Limited	UK banking licence application
Property & Funding Solutions Ltd	Bridging & development finance
Credit Asset Management Limited	Asset finance and loans
Professions Funding Limited	Professions funding
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
Acorn to Oaks Financial Services Limited (a)	Financial services intermediary
Acorn to Oaks Associates Limited (a)	Financial services intermediary

(a) Ceased to be a subsidiary on 1 April 2021.

All the subsidiary undertakings are wholly-owned. They were also wholly-owned at 31 March 2020 with the exception of Recognise Bank Limited in which the Company then held 72% of the ordinary shares and 100% of the deferred shares in issue.

All the subsidiary undertakings at 31 March 2021 were held directly by the Company with the following exceptions:

- Professions Funding Limited is a wholly owned subsidiary of Credit Asset Management Limited.
- Property & Funding Solutions Ltd is a wholly owned subsidiary of Recognise Bank 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 is a wholly-owned subsidiary of Acorn to Oaks Financial Services Limited.

All subsidiaries are registered in England and Wales and have a 31 March year end. 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.

(f) Other investments

Other investments held by the Company comprise legal case investments and an unlisted security. Full provision against the carrying values of £130,000 and £8,000 respectively was made in the year to 31 March 2020 as there was uncertainty on both the timing and amount of any realisations at that time. There has been no change in the position during the year.

Notes to the financial statements / continued

19 Assets and liabilities classified as held for sale

	Group	Company
	2021 £'000	**2021 £'000**
Assets in disposal groups classified as held for sale/ assets held for sale		
Acorn to Oaks	1,737	1,114
Milton Homes	64,557	8,450
	66,294	9,564
Liabilities directly associated with assets in disposal groups classified as held for sale		
Acorn to Oaks	623	–
Milton Homes	56,107	–
	56,730	–
Fair value of disposal groups/ assets held for sale		
Acorn to Oaks	1,114	1,114
Milton Homes	8,450	8,450
	9,564	9,564

There were no Assets classified as held for sale at 31 March 2020.

During the year, the Company decided that, in order to meet its medium-term strategic objectives, the Group should focus its activities on the development and growth of Recognise Bank and divest itself of its other businesses, Milton Homes Limited ("Milton Homes"), which administers a portfolio of home reversion plans, and Acorn to Oaks Financial Services Limited ("Acorn to Oaks"), which is a financial services intermediary. The capital and additional management resource capacity that become available following the disposals will be deployed within Recognise Bank.

Accordingly, the investments in these two subsidiaries have been reclassified as Assets held for sale in the accounts of the Company and have been included within current assets at their estimated net realisable value, after allowing for disposal costs.

In the consolidated accounts, the assets of each business and the liabilities directly related to those assets form a disposal group, which will leave the Group following completion of a sale. The assets of each business and the liabilities directly related to the assets of each disposal group, were reclassified as "assets in disposal groups classified as held for sale" and "liabilities directly associated with assets in disposal groups classified as held for sale" respectively and included within current assets and liabilities at 31 March 2021. Assets reclassified as "assets in disposal groups classified as held for sale" include the goodwill arising on consolidation of the disposal group.

The sale of Acorn to Oaks was completed on 1 April 2021, immediately after the year-end, to Jason Oakley and his wife, Claire Oakley, who controlled the majority of the shares in Acorn to Oaks when it was purchased by the Company in January 2019. The disposal is deemed to be a related party transaction under Rule 13 of the AIM Rules as Jason Oakley is deemed to be a related party of the Company as he is a director of Recognise Bank, a wholly-owned subsidiary.

The sale of Milton Homes was agreed, subject to the receipt from the FCA of regulatory approval for the change of control, on 3 September 2021.

The fair value of Acorn to Oaks as at 31 March 2021 was assessed by reference to the net consideration realised on its sale on 1 April 2021.

The fair value of Milton Homes as at 31 March 2021 was assessed by reference to proposals received from parties who expressed an interest in purchasing Milton Homes and takes account of estimated disposal costs.

Notes to the financial statements / continued

The charge arising from the change in value of the business units on their reclassification as disposal groups has been included in the loss from discontinued operations in the consolidated income statement:

Carrying amounts of assets in disposal group	Before classification £'000	As remeasured £'000	Change in value £'000
Acorn to Oaks			
Goodwill	861	747	114
Property, plant & equipment	6	6	–
Trade and other receivables	601	601	–
Cash at bank	383	383	–
	1,851	1,737	114
Milton Homes			
Goodwill	1,004	–	1,004
Investment properties	38,156	35,123	3,033
Financial assets – equity release plans	31,532	29,026	2,506
Trade and other receivables	21	21	–
Cash at bank	387	387	–
	71,100	64,557	6,543
Total change in value			6,657

The carrying amounts of assets and liabilities in the Acorn to Oaks disposal group at 31 March 2021 and 1 April 2021, the date of its sale, were:

	£'000	£'000
Assets in disposal group		
Goodwill		747
Property, plant & equipment		6
Trade and other receivables		601
Cash at bank		383
		1,737
Liabilities related to assets in disposal group		
Trade and other payables	(553)	
Other creditors	(70)	
		(623)
Carrying amounts of assets and liabilities		1,114
The net consideration for the sale was satisfied by:		
Cancellation of Rollover Loan Notes 2021 (a)		1,293
Cash payment by the Company		(140)
Costs of disposal		(39)
		1,114

(a) The Rollover Loan Notes 2021 were issued to the buyers at the time of the purchase of Acorn to Oaks in January 2019.

Notes to the financial statements / continued

19 Assets and liabilities classified as held for sale continued

The carrying amount of the assets and liabilities in the Milton Homes disposal group at 31 March 2021 was:

	£'000
Assets in disposal group	
Investment properties	35,123
Financial assets – equity release plans	29,026
Trade and other receivables	21
Cash at bank	387
	64,557
Liabilities related to assets in disposal group	
Trade and other payables	(229)
Other creditors	(13)
Borrowings	(54,824)
Deferred tax liability	(1,041)
	(56,107)
Fair value of disposal group	8,450

The valuation of the assets held in both the Milton Homes disposal group and Acorn to Oaks disposal group is categorised as a Level 3 valuation in the fair value hierarchy (note 33(v)).

20 Loans and leases receivable

	Group		Company	
Non-current	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'000**
Loans	7,149	3,593	–	–
Finance leases	988	1,600	–	–
	8,137	5,193	–	–

Non-current loans and finance leases are stated after including provisions of £428,000 for impairment (2020: £839,000).

	Group		Company	
Current	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'000**
Loans	7,496	11,728	–	–
Loans to related parties	–	–	17	24
	7,496	11,728	17	24
Finance leases	398	1,087	–	–
	7,894	12,815	17	24

Current loans and finance leases are stated after including provisions of £1,959,000 for impairment (2020: £1,756,000).

Notes to the financial statements / continued

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

	2021		2020	
	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	1,092	988	2,092	1,600
Less than one year	1,099	398	1,862	1,087
	2,191	1,386	3,954	2,687
Less: unearned finance income	(252)	–	(437)	–
	1,939	1,386	3,517	2,687

There were no finance lease receivables in respect of the Company (2020: nil).

The gross carrying amount of the Group's lease and loan portfolios, including arrears, decreased from £22,510,000 to £20,509,000 over the year. While the loan portfolios of Recognise Bank and Property & Funding Solutions ("PFS") increased by £6,437,000 to £12,305,000 at 31 March 2021, there was a reduction of £8,438,000 in the CAML/PFL lease and loan portfolio to £8,204,000, including arrears, as the run-off of that portfolio continued.

The overall reduction of £208,000 in the loss allowance over the year to 31 March 2021 reflects the changes in the Group's lease and loan portfolios. As CAML/PFL agreements have matured, Stage 1 impairment provisions have reduced correspondingly. The increases in the Stage 2 and Stage 3 provisions over the year, which relate solely to the CAML/PFL portfolio, largely reflect the current and potential future impact of COVID-19 on SME businesses. The increase in the Recognise Bank and PFS loan portfolios had a minimal impact on the Stage 1 impairment provision due to the nature of the portfolios and the level and type of security held.

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 2021				
Loans	207	21	1,440	1,668
Finance leases	168	32	519	719
Provision for impairment	375	53	1,959	2,387
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

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 the financial statements / continued

20 Loans and leases receivable continued

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	Total £'000
As at 1 April 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 movements	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
Movement in provision for impairment				
Transfer to Stage 2	(39)	39	–	–
Transfer to Stage 3	(36)	(7)	43	–
Specific provisions	–	–	203	203
New financial assets originated	4	–	–	4
Other movements	(372)	–	–	(372)
Write-offs	–	–	(43)	(43)
Total movement in loss allowance	(443)	32	203	(208)
As at 31 March 2021	375	53	1,959	2,387
Coverage provided by the impairment provision				
At 31 March 2021	2.13%	8.65%	80.41% (a)	11.54%
At 31 March 2020	4.16%	9.14%	63.35% (a)	11.45%

(a) including amounts in arrears

21 Trade and other receivables

	Group		Company	
Current assets	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'000**
Trade receivables	23	544	–	–
Amounts owed by subsidiaries	–	–	837	7,410
Other debtors	2,502	2,187	349	213
Prepayments and accrued income	546	270	281	93
	3,071	3,001	1,467	7,716

Notes to the financial statements / continued

22 Cash and cash equivalents

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Cash at bank	14,493	7,219	962	5,215

There was no restricted cash (2020: £51,000) within the Group cash balance of £14,493,000 (2020: £7,219,000) and no restricted cash within the Company cash balance of £962,000 (2020: £5,215,000). The disposal groups classified as assets held for sale include cash of £770,000 of which £42,000 was restricted cash (note 19). The restricted cash at both 31 March 2021 and 31 March 2020 was held on behalf of clients.

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

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Borrowings				
6% Unsecured Convertible Loan Notes 2021	–	2,050	–	2,050
Rollover Loan Notes due 2021 (note 19)	1,293	–	1,293	–
Loans	2,729	5,158	–	–
	4,022	7,208	1,293	2,050
Trade and other payables				
Trade payables	478	795	271	81
Amounts owed to subsidiaries	–	–	–	9
Dividends payable	1	1	1	1
Corporate tax	–	19	–	–
Other taxation and social security	224	111	23	34
Other creditors	233	295	76	106
Deposits from customers of Recognise Bank	2	–	–	–
Accruals and deferred income	3,486	2,660	424	414
	4,424	3,881	795	645

Notes to the financial statements / continued

24 Non-current liabilities

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Borrowings				
Preference shares of subsidiary	2,094	3,000	–	–
Loans	882	59,615	–	–
	2,976	62,615	–	–
Other creditors				
Deferred consideration (a)	–	149	–	86

(a) The deferred consideration in 2020 comprised contingent consideration of £86,000 in relation to Acorn to Oaks Financial Services Limited and £63,000 in relation to Acorn to Oaks Associates Limited (note 27). The amount relating to Acorn to Oaks Financial Services Limited at 31 March 2021 has been released (note 18(c)) while that for Acorn to Oaks Associates Limited has been reclassified to Liabilities directly associated with assets in disposal groups classified as held for sale (note 19).

25 Deferred tax assets and liabilities

	Group		Company	
Deferred tax liability	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'000**
At 1 April	809	744	–	–
Tax expense	232	65	–	–
	1,041	809	–	–
Reclassify to Liabilities directly associated with assets in disposal groups classified as held for sale	(1,041)	–	–	–
At 31 March	–	809	–	–
The deferred tax liability reclassified comprised:				
Gains arising from the revaluation of investment properties	1,999	1,549	–	–
Losses	(958)	(740)	–	–
	1,041	809	–	–

	Group		Company	
Unrecognised deferred tax assets	**2021 £'000**	**2020 £'000**	**2021 £'000**	**2020 £'000**
Differences between tax and accounting base of:				
Capital losses	190	190	190	190
Trading losses	2,993	6,967	–	–
Excess management charges	1,502	3,605	1,502	1,340
Timing differences	(15)	(89)	(9)	2
Total	4,670	10,673	1,683	1,532

Notes to the financial statements / continued

No deferred tax assets were recognised in the financial statements at 31 March 2021 or 31 March 2020.

Unrecognised deferred tax assets have been calculated on the basis of trading losses and excess management charges carried forward of £23,660,000 (2020: £55,644,000), capital losses of £1,001,000 (2020: £1,001,000) and timing differences of £81,000 (2020: £470,000). There is no time limit for the utilisation of these amounts. The unrecognised deferred tax assets of Milton Homes Limited and Acorn to Oaks Financial Services Limited, which are classified as assets held for disposal at 31 March 2021, have been excluded from the current year figures as they will not be available to the Group following the sale of these companies. They are included in the prior year figures.

26 Called-up share capital

Allotted, called up and fully paid	2021 Number	2020 Number	2021 £'000	2020 £'000
Ordinary shares of £0.02	80,727,119	39,960,551	1,615	800
Deferred shares of £0.001	–	3,648,415,419	–	3,648
			1,615	4,448

The Company did not hold any ordinary shares in treasury at 31 March 2021 (2020: nil). 21,849 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 31 March 2021 (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 31 March 2021 amounted to £17,000 (2020: £24,000): these are deducted from equity in accordance with note 2.24.

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 Bank 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 Bank Limited (then Recognise Financial Services Limited) who, following the receipt by Recognise Bank 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 £4,368,000 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.

On 9 October 2020, the Company raised £26,684,550 through the issue of 33,355,688 ordinary shares at 80p each for cash. On 27 October 2020, the Company raised a further £301,452 through the issue of 376,815 ordinary shares at 80p each for cash. The funds raised were used to support the on-going development of Recognise Bank as it moved towards being granted a full UK banking licence.

Costs of £726,000 (2020: nil) were incurred in relation to the issue of shares in the year. The costs have been offset against the Company's Share premium.

Notes to the financial statements / continued

26 Called-up share capital continued

Shares in issue	Deferred Number	Ordinary of £0.02 Number	Deferred £'000	Ordinary £'000
As at 31 March 2019	3,648,415,419	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
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 Bank Limited	–	5,600,000	–	112
Issued for cash on 9 October 2020	–	33,355,688	–	667
Issued for cash on 27 October 2020	–	376,815	–	8
As at 31 March 2021	–	80,727,119	–	1,615

Capital reserve

The capital reserve arose on 30 April 2020 following the buy back and cancellation of the Deferred shares. On cancellation of the Deferred shares, the share capital was reduced by £3,648,415 and this amount, which was transferred from share capital to a capital reserve, is not distributable to shareholders.

27 Non-controlling interests

	2021 £'000	2020 £'000
At 1 April	–	13
Profit attributable to non-controlling interests	–	12
Distributions to non-controlling interests	–	(25)
At 31 March	–	–

The equity interests held by the minority shareholders in Recognise Bank Limited, which were consolidated throughout both the current and prior year, were acquired in September 2020 (note 26).

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, with £100 payable on completion and £75,000 after three years. The deferred consideration of £75,000 was recorded at its amortised cost of £63,000 (note 24) and, in accordance with IAS 27, the difference of £63,000 between the consideration and the net assets acquired was included as a movement in equity in the year ended 31 March 2020.

28 Commitments

The holder of the £2,093,826 8% 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 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 2021 was £862,500.

As at 31 March 2021, Recognise Bank Limited was contractually committed to make future loan advances of £6,159,000 (2020: nil) to customers.

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 £823,554 (2020: £557,500) of which £794,776 (2020: £557,500) was borne by the Company and £28,778 (2020: nil) by a subsidiary. In addition, aggregate social security costs were £101,433 (2020: £66,393) of which £98,067 (2020: £66,393) was borne by the Company and £3,366 (2020: nil) 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 agreements with its three largest shareholders which regulate arrangements with each, including the following:

- Parasol V27 Limited: The shareholder is entitled to nominate two non-executive directors to the board of the Company while it holds 25% or more of the voting shares of the Company and one non-executive director to the board of the Company and one non-executive director to the board of Recognise Bank Limited while it holds 10% or more of the voting shares. The present nominated directors of the Company are N Bossano-Llamas and R Parasol who is also the nominated director at Recognise Bank Limited.
- Max Barney Investments Limited: The shareholder is entitled to nominate a director to the board of the Company while it holds not less than 10% of the voting shares of the Company and any 8% Redeemable Preference Shares issued by Credit Asset Management Limited. The present nominated director is P G Milner.
- DV4 Limited: The shareholder is entitled to nominate an observer to the board of the Company while it holds not less than 10% of the voting shares of the Company.

The Company recharges the costs of shared premises to its subsidiaries, Credit Asset Management Limited, Milton Homes Limited, Property & Funding Solutions Ltd and Recognise Bank Limited. The amount recharged in the year was £518,000 (2020: £315,000).

Notes to the financial statements / continued

30 Share-based payments

The Company operates three equity-settled share-based remuneration schemes for employees:

- Share Option Plan 2017
- Company Share Option Plan 2019
- Long Term Incentive Plan 2020

Share options may be granted to employees, including executive directors, of the Company and its subsidiaries and are intended to provide long-term incentives for executives, including executive directors, to deliver long-term shareholder returns. Under each plan, participants are granted options which only vest if certain performance standards are met. Participation in any of the plans is at the board's discretion, and no individual has a contractual right to participate in a plan or to receive any guaranteed benefits.

The exercise price of the fixed price options issued under the Share Option Plan 2017 and Share Option Plan 2019 is equal to the market price of the shares at the date of grant. The initial value of the nil-cost options issued under the Long Term Incentive Plan 2020 is equal to the market price of the shares at the date of grant.

The exercise of options under each plan is conditional on the employee completing three years' service (the vesting period). The number of options that vest is dependent on the Company's Total Shareholder Return (TSR) over the period to vesting. 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 plans provide for the exercise of options to be settled by the Company by either the transfer or issue of shares.

The number of options granted during the current and prior year were as follows:

	2021		2020	
	Date of grant	**Number**	**Date of grant**	**Number**
Share Option Plan 2017	04/12/2020	843,750	24/07/2019	103,448
Company Share Option Plan 2019	04/12/2020	300,000		–
Long Term Incentive Plan 2020	04/12/2020	1,203,876		–
Total granted in year		2,347,626		103,448

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

	2021		2020	
	Weighted average exercise price	**Number**	**Weighted average exercise price**	**Number**
Outstanding at 1 April	119.36p	2,144,827	118.06p	2,041,379
Granted during year	38.98p	2,347,626	145.00p	103,448
Lapsed during year	90.00p	(300,000)	–	–
Outstanding at 31 March	76.45p	4,192,453	119.36p	2,144,827

700,000 of the share options were exercisable at 31 March 2021 at 90p each (2020: nil).

The exercise price of options outstanding under the Share Option Plan 2017 and Company Share Option Plan 2019 at 31 March 2021 was between 80p and 145p (2020: 90p and 145p). Options issued under the Long Term Incentive Plan 2020 are nil-cost options. The weighted average remaining contractual life of the outstanding options was 8.5 years.

City of London Group plc's share price as at 31 March 2021 was 77.5p (2020: 114.0p). The average for the year to 31 March 2021 was 90.3p (2020: 138.2p).

Notes to the financial statements / continued

Options issued since 2018 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:

	December 2020 Grant	July 2019 Grant	July 2018 Grant	October 2017 Grant
Exercise price (a)	80.00p	145.00p	145.00p	90.00p
Share price	88.00p	145.00p	145.00p	90.00p
Contractual life (in days)	1,095	1,095	1,095	1,095
Volatility	32.00%	23.20%	13.30%	13.30%
Annual risk-free interest rate	0.01%	0.41%	1.04%	0.95%

(a) Options granted under the Long Term Incentive Plan 2020 in December 2020 are nil-cost options.

Volatility is a measure of the amount by which the underlying share price is expected to fluctuate during the life of each option.

The volatility for the options granted in December 2020 is based on the historical observed volatility from trading in the Company's shares over the three-year period to 4 December 2020.

The observed volatility of the shares was not meaningful for the purpose of either the Monte Carlo or Black-Scholes models in respect of options granted in prior years as the shares of the Company began trading on AIM only in 2017 and the share price had been fairly illiquid subsequently. 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 valuations assumed all the options would be exercised.

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

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 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
Cash flows	(6,762)	(4,695)	(11,457)
Non-cash flow			
Non- current borrowings becoming current borrowings	(56,733)	56,733	–
Lease liabilities	(333)	333	–
Conversion of 6% Unsecured Loan Stock to ordinary shares	–	(2,050)	(2,050)
Transfer of Rollover Loan Notes 2021 from Equity	–	1,293	1,293
Interest accrued in period	3,872	15	3,887
At 31 March 2021	3,085	59,135	62,220

Company	Non-current borrowings £'000	Current borrowings £'000	Total £'000
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
Cash flows	–	(357)	(357)
Non-cash flow			
Lease liabilities	(333)	333	–
Conversion of 6% Unsecured Loan Stock to ordinary shares	–	(2,050)	(2,050)
Transfer of Rollover Loan Notes 2021 from Equity	–	1,293	1,293
Interest accrued in period	16	15	31
At 31 March 2021	109	1,582	1,691

32 Financial instruments

The Company's and the Group's financial instruments are listed in the tables below. Prior to their transfer to Assets held for sale, financial assets included financial assets – equity release plans and, for the Company, 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.

Financial instruments which have been reclassified as Assets within disposal groups held for sale or as Liabilities directly related to Assets within disposal groups held for sale are not included in the table below, nor are other assets and liabilities outside the scope of IFRS 9.

	Group		Company	
	2021 £'000	**2020 £'000**	**2021 £'000**	**2020 £'000**
Financial assets				
Measured at fair value through profit and loss				
Financial assets - equity release plans	–	30,343	–	–
Deep discount bonds	–	–	–	9,051
Measured at amortised cost				
Loans	14,645	15,321	17	24
Finance leases	1,386	2,687	–	–
Trade receivables	23	544	–	–
Amounts owed by subsidiaries	–	–	837	7,410
Other debtors	2,502	2,187	349	213
Cash and cash equivalents	14,493	7,219	962	5,215
Measured at fair value through other comprehensive income				
Debt securities	6,500	–	–	–
	39,549	58,301	2,165	21,913
Financial liabilities				
Measured at amortised cost				
6% Unsecured Convertible Loan Notes 2021	–	2,050	–	2,050
Other interest-bearing loans	5,705	67,773	–	–
Lease liabilities	398	724	398	724
Deferred consideration	–	149	–	86
Trade payables	478	795	271	81
Other creditors	233	295	76	106
Deposits from customers of Recognise Bank	2	–	–	–
Amounts owed to subsidiaries	–	–	–	9
Dividends payable	1	1	1	1
Accruals and deferred income	3,486	2,660	424	414
	10,303	74,447	1,170	3,471

Notes to the financial statements / continued

32 Financial instruments continued

At 31 March 2021 and 31 March 2020, the carrying amounts of debt securities, 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.

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'.

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:

	2021 £'000	**2020 £'000**
Loans	14,645	15,321
Leases	1,386	2,687
Trade and other receivables	2,525	2,731
Debt securities	6,500	–
Cash and cash equivalents	14,493	7,219
Total	39,549	27,958
being:		
Gross amounts	41,936	30,553
Provision for impairment	(2,387)	(2,595)
Total	39,549	27,958

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 increased due to the COVID-19 pandemic, and this is reflected in the allowance for impairment that was made as at both 31 March 2021 and 31 March 2020 (note 20).

Loans and leases are made predominantly to commercial SME clients and to professional firms. Exposure to credit risk is managed in part by obtaining collateral security and corporate and personal guarantees, as management considers necessary. Property bridging loans are secured over the property for which the loan is advanced and personal guarantees are also obtained.

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:

	2021 £'000	2020 £'000
Loans	1,927	2,622
Leases	686	856
	2,613	3,478
Provisions made in respect of above	1,959	1,756

Receivables wholly or partly in arrears include arrears of £2,102,000 (2020: £1,915,000), of which £1,893,000 (2020: £1,513,000) was more than 90 days in arrears.

The Group limits its credit exposure to cash and cash equivalents by depositing funds with UK High Street banks or other financial institutions approved by the Assets and Liabilities Committee of Recognise Bank which specifies and monitors the basis on which deposits may be made.

(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 2021 and 31 March 2020, 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 2021	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	–	754	2,310	3,068	–	6,132
Trade and other payables	–	4,200	–	–	–	4,200
Lease liabilities		77	225	110	–	412
	–	5,031	2,535	3,178	–	10,744
Company						
Interest-bearing borrowings	–	–	–	–	–	–
Trade and other payables	–	772	–	–	–	772
Lease liabilities		77	225	110	–	412
	–	849	225	110	–	1,184

Notes to the financial statements / continued

33 Financial risk management continued

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

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 2021 was £54,793,000 (2020: £57,087,000). As this loan is part of the Milton Homes disposal group, it has been included as a current liability within Liabilities directly associated with assets in disposal groups classified as held for sale at 31 March 2021. It has not been included in the table of the repayment dates of financial liabilities below.

The repayment dates of financial liabilities are as follows:

Year ended 31 March 2021	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	–	662	2,067	2,976	–	5,705
Trade and other payables	–	4,200	–	–	–	4,200
Lease liabilities	–	72	217	109	–	398
	–	4,934	2,284	3,085	–	10,303
Company						
Interest-bearing borrowings	–	–	–	–	–	–
Trade and other payables	–	772	–	–	–	772
Lease liabilities	–	72	217	109	–	398
	–	844	217	109	–	1,170

Notes to the financial statements / continued

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

(iv) Interest rate risk

The Company has interest-bearing assets and liabilities at fixed interest rates. Recognise Bank may make loans on either a fixed or variable (floating) interest rate basis. Changes in the interest on variable (floating) loans will arise from changes in the underlying Bank of England base rate or market rate. Recognise Bank mitigates interest rate risk through its Asset and Liability Committee which is responsible for identifying, managing and controlling all balance sheet risks in accordance with Recognise Bank's chosen business strategy. With this exception, the Group and Company had no floating rate borrowings at either 31 March 2021 or 31 March 2020. Any change in the Bank of England rate would have only a marginal effect on the results before tax of the Group and Company in the current year and no effect in the previous year.

(v) Price risk

The valuation of both the investment properties and financial assets – equity release plans 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.

Both the investment properties and financial assets – equity release plans are held by Milton Homes which has been reclassified as a disposal group held for sale as at 31 March 2021 and included in the accounts at its estimated net realisable value, as was the Acorn to Oaks disposal group (note 19). The valuation of both these disposal groups is categorised as a level 3 valuation.

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 the financial statements / continued

33 Financial risk management continued

The following tables present the Group's assets that are measured at fair value:

Level 3 valuation	2021 £'000	2020 £'000
Acorn to Oaks disposal group	1,114	–
Milton Homes disposal group	8,450	–
Investment properties	–	38,609
Financial assets – equity release plans	–	30,343
	9,564	68,952

No Level 1 or Level 2 assets were held at either 31 March 2021 or 31 March 2020.

Assets within the Milton Home and Acorn to Oaks disposal groups became Level 3 assets on their reclassification as disposal groups. The investment properties and financial assets – equity release plans held by Milton Homes were already Level 3 assets. There were no transfers of assets between categories during the previous year. An asset is transferred when, due to changes in circumstances, it falls into another category within the fair value hierarchy.

The movement on level 3 assets is as follows:

	2021 £'000	2020 £'000
Balance at 1 April	68,952	71,663
Movements prior to reclassification		
Additions	–	42
Equity transfer	1,212	1,367
Revaluations	6,712	1,443
Disposals	(7,188)	(5,563)
	69,688	68,952
Transfer to Milton Homes disposal group	(69,688)	–
Additions – disposal groups	9,564	–
Balance at 31 March	9,564	68,952

(vi) Capital Management

The primary objective of the Company's capital management is to ensure it has sufficient funding capacity for itself and to support the development of the Group in accordance with its strategy of focusing on the development and growth of its banking business so that, following receipt of a full UK banking licence by Recognise Bank, it can establish a business that will meet the needs of the SME UK business market. The Board considers Recognise Bank's ICAAP and ILAAP in its regular assessments of the Group's future capital and liquidity requirements 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:

	2021 £'000	2020 £'000
Third party borrowings	1,293	2,050
Debt	1,293	2,050
Equity	56,668	31,283
Gearing	2.3%	6.6%

Notes to the financial statements / continued

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).

	2021	2020
Equity attributable to owners of the Company excluding the equity instrument (£'000)	39,386	23,773
Number of ordinary shares in issue ('000)	80,705	39,939
Consolidated net asset value per share	49p	60p

35 Post balance sheet events

Acorn to Oaks Financial Services Limited

On 1 April 2021, the Company sold its wholly-owned subsidiary, Acorn to Oaks Financial Services Limited, which operates as a financial services intermediary, for a net consideration of £1,114,000. The disposal was a related party transaction as one of the purchasers, Jason Oakley, is a director of Recognise Bank (note 19).

Capital raise and open offer

On 23 August 2021, the Company announced a capital raise of £11.4 million through a share subscription, conditional on shareholder approval, which was obtained on 8 September 2021, and a raise of up to £6.9 million through an open offer.

Two of the Company's major shareholders, Parasol V27 Limited and Max Barney Investments Limited (together the "Subscribers"), have agreed to subscribe for 18,916,667 new ordinary shares at a subscription price of 60p per new ordinary share in cash for aggregate gross proceeds to the Company of £11,350,000 (the "Subscription"). In addition, the Subscribers will receive warrants to subscribe for 9,458,333 shares at an exercise price of 69p per new ordinary share over the next three years.

In addition, an open offer to qualifying shareholders on the same pricing terms as the Subscription will be launched shortly. Shareholders who subscribe for shares in the Open Offer will also receive warrants on the same terms as the Subscribers.

The proceeds of the capital raise and the sale of Milton Homes will be used to meet capital requirements and lift deposit restrictions on Recognise Bank.

Credit Asset Management Limited Preference Share Purchase

Related to the Subscription by Max Barney Investments Limited, the Company has agreed to purchase by 30 September 2021 £1 million of accumulated preference dividend in Credit Asset Management Limited from HPB Pension Trust. HPB Pension Trust is connected with Max Barney Investments Limited.

Employee Benefit Trust

The Company issued 5,152,794 shares to the trustee of its Employee Benefit Trust on 6 September 2021 to satisfy future share awards under the Company's share incentive schemes. This represents 6.4% of the Company's current shares outstanding before this issue or 6.0% of the shares outstanding immediately after this issue but excluding any of the share issuances related to the Subscription, Open Offer or Warrants.

Milton Homes Limited

On 3 September 2021, the Company conditionally entered into an agreement to sell the entire issued share capital of Milton Homes Limited and its subsidiaries to Max Barney Investments Limited for a total consideration of £9.3 million. The sale, which is classified as a substantial transaction under AIM Rule 12, is conditional on receiving regulatory approval from the FCA for the change in control of Milton Homes Limited and of its lender. The net proceeds from the sale of Milton Homes are intended to contribute to the regulatory capital of Recognise Bank. The disposal constitutes a related party transaction under AIM Rule 13 as Max Barney Investments Limited holds in excess of 10% of the total voting rights of the Company.

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) in conformity with the requirements of the Companies Act 2006. 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 in conformity with the requirements of the Companies Act 2006, 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

Philip Jenks
Chair

9 September 2021

Independent Auditor's report

Opinion on the financial statements

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

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 2021 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Cash Flows, the 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 and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Analysing management's assessment of Going Concern including supporting financial forecasts.

We assessed the relevant scenarios included in the Directors' going concern assessment by performing the following:

- Evaluated the Directors' 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 the Directors to support the going concern assessment which included assumptions about the potential impact of economic uncertainty 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 also reviewed the Directors' assessments of 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 the Directors' assessments.

Independent Auditor's report / continued

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

		Mar 2021	Mar 2020
Coverage		100% of Group profit before tax 100% of Group revenue 100% of Group total assets	100% of Group profit before tax 100% of Group revenue 100% of Group total assets
Key audit matters	Revenue recognition	✔	✔
	Valuation of interests in property portfolio	✔	✔
	Loan loss provisioning	✔	✔
	Going concern and COVID-19	n/a	✔
	Going concern is not considered a key audit matter this year. Last year's consideration was mainly driven by the COVID-19 pandemic, which is improving and is not considered to have had a material impact on the company in the current year.		
Materiality	Based on 1% of Total Group Assets	£1,173,000	£1,004,160

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group conducts its business through 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 and subsidiaries, including all significant components being: Credit Asset Management Limited (CAML), Professions Funding Limited, Milton Homes Ltd, Milton Homes Properties Ltd, and Recognise Bank Limited. Full scope statutory audits were performed on all other entities within the Group being insignificant components other than Acorn to Oaks Financial Services Limited.

Independent Auditor's report / continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that 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 the scope of our audit addressed the key audit matter
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 at Credit Asset Management Limited (CAML), Professions Funding Limited (PFL) and Recognise Bank Limited is recognised on an accruals basis using the effective interest rate method. The majority of interest income is based on the automatic calculations within the Group's loans and leases system whilst income on loans within Property & Funding Solutions Limited (PFS) is calculated manually. 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 as set out in the key audit matter below.	Our audit testing included but was not restricted to: Interest income: • For Credit Asset Management Limited (CAML) and Professions Funding Limited (PFL), 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. • For Recognise Bank Limited (Recognise) and Property & Funding Solutions Ltd (PFS), we recalculated manually interest income and agreed inputs to underlying loan contracts and supporting documentation for the full population. Completeness of the loan books was tested by reconciling the listing used for interest recalculation to the loan book that is tested substantively. Equity release: Our audit work on revenue on Milton Homes Limited (MH) was linked to the work undertaken in the valuation of interests in property portfolio key audit matter below. Our audit work included specific testing on the percentage share for all properties and we also reconciled the movements in the year for 100% of properties. 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 in relation to interest income and equity release 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) – reclassified to "Assets in disposal Groups classified as held for sale" (under note 19) Investment property and equity release plans are the largest balances on the Group's balance sheet. The valuation of Investment property requires significant judgement and estimates by the Directors and the independent valuer appointed by management and is therefore considered a key audit matter due to the subjective nature of certain assumptions inherent in each valuation. Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement in the consolidated statement of comprehensive income and consolidated balance sheet. There is also a risk of fraud in relation to the valuation of the property portfolio where the Directors may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets.	We responded to this matter by: • Assessing the competence and independence of management's expert and challenging them directly on the assumptions used within the valuations, to determine whether they are based on appropriate assumptions. • Identifying the key inputs to the valuation and corroborating to source data where applicable. For example HPI index figures were tied to Acadata, while Nationwide source data and life expectancies were tied to ONS data. • Testing the integrity of the data within the valuation workings and performing an assessment on the application of formulae used in the valuations. Key observations: Based on our procedures performed, we consider the valuation of interests in property portfolio to be reasonable.

Independent Auditor's report / continued

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 in compliance with 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 the relevant risk staging 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. Given that Recognise has its own business and risk model, a separate ECL model has been developed for its loan book with its own judgements and estimates.	We responded to this matter by performing the following: CAML and PFL • Performed an assessment of management's 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 COVID-19. • 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. • Performed assessment of specific provisions, including challenge of assumptions and corroborating data back to supporting documentation. Recognise • Assessed the competence and independence of management's expert. • Reviewed and challenged management estimates and judgements involved in determining the probability of default and the loss given default by benchmarking to external sources. • Performed simple mathematical recalculation of the expected credit loss using key inputs provided by the management's experts and performed data integrity assessments, tracing back inputs to underlying supporting documentation where applicable. Key observations: Based on our procedures performed, we consider the provision to be reasonable.

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 as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	Mar 2021	Mar 2020	Mar 2021	Mar 2020
Materiality	£1,173,000	£1,004,160	£49,000	£39,000
Basis for determining materiality	1% of Total Group Assets	1% of Total Group Assets	3 year average of gross expenditure	3 year average of loss before tax
Rationale for the benchmark applied	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.		The benchmark has changed from Loss before tax (used in prior year) to Gross Expenditure in the current year. This was done to reflect better the nature of the entity.	
Performance materiality	£879,750	£753,000	£36,000	£29,000
	Based on 75% of materiality		Based on 75% of materiality	
Basis for determining performance materiality	On the basis of our risk assessment together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75% of materiality.			
Specific materiality	£118,000	£106,000		
	Based on 3-year average of gross expenditure (1%). Specific materiality has been assessed on all income statement based transactions and the relevant associated balance sheet items excluding fair value movements of investments			
Basis for determining specific materiality	Given the high level of materiality as determined on total assets, a specific materiality has been determined on gross expenditure as being more appropriate for testing of classes of transactions in the income statement.			

Independent Auditor's report / continued

Component materiality

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was from £13,600 to £1,045,000 (31 Mar 20: £12,400 to £1,002,000) and performance materiality from £10,000 to £784,000 (31 Mar 20: £9,000 to £752,000)

Reporting threshold

We agreed with the Audit Committee that we would report all individual audit differences in excess of £23,000 (2020:£21,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	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.

Independent Auditor's report / continued

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates and considered the risk of acts by the Group which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies Act 2006, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations and tax legislation.

We focused on laws and regulations that could give rise to a material misstatement in the company and Group financial statements.

Our tests included, but were not limited to:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with the relevant laws and regulations discussed above;
- enquiring of management, and the Audit Committee;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments. On a sample basis we determined journals with key risk characteristics such as postings made by non- finance staff, debit postings to revenue, least used accounts, key words search and we agreed these to supporting documents;
- we also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we identified potential for fraud in accounting estimates such as the valuation of investment properties, impairment assessment in subsidiaries, impairment assessment financial assets including the loan loss provision and Revenue Recognition.

Independent Auditor's report / continued

- assessing whether the judgements made in making accounting estimates are indicative of a potential bias (among others in terms of judgement used in the valuation of Investment property and equity release and determination the probability of default and the loss given default on loan accounts as set out above); and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: 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
9 September 2021

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 12 October 2021 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 12 will be proposed as ordinary resolutions and resolutions 13 and 14 will be proposed as special resolutions:

We are keen to welcome shareholders in person to our 2021 Annual General Meeting this year, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, it is possible under guidelines to allow shareholders to attend the AGM and therefore we are proposing to welcome shareholders to attend the AGM within safety constraints and in accordance with government guidelines. Shareholders who cannot attend the AGM should email any questions they have, or would normally raise during the course of the AGM to the Company Secretary (Ben.Harber@shma.co.uk). Given the constantly evolving nature of the COVID-19 situation, should circumstances change before the time of the AGM, we want to ensure that we are able to adapt arrangements, within safety constraints and in accordance with government guidelines. Should we have to change arrangements, we will issue a further communication via a Regulatory Information Service. As such, we strongly recommend shareholders monitor such communications, which can also be found on our website at www.cityoflondongroup.com. Shareholders wishing to appoint a proxy are encouraged 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 2021.
2. To re-elect Michael Goldstein as a director of the Company.
3. To re-elect Paul Milner as a director of the Company.
4. To elect Nyreen Bossano-Llamas as a director of the Company.
5. To elect Sherif Moorad Choudhry as a director of the Company.
6. To elect Richard Gabbertas as a director of the Company.
7. To elect Philip Jenks as a director of the Company.
8. To elect Louise McCarthy as a director of the Company.
9. To elect Ruth Parasol as a director of the Company.
10. To elect Simon Wainwright as a director of the Company.
11. 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.
12. 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 2022, 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 £419,186.32, representing a maximum of 20,959,316 ordinary shares of 2 pence each, equivalent to approximately 20% of the capital of the Company anticipated to be in issue following the General Meeting on 8 September 2021. As stated in the Chair'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 business opportunities arising after Recognise Bank Limited has a full UK banking licence.

Special Resolutions

13. That, subject to the passing of resolution 12 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 £419,186.32 and this power shall expire, unless previously revoked, renewed or varied, at the conclusion of the next Annual General Meeting of

Notice of Annual General Meeting / continued

the Company or on 30 September 2022, 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.

14. 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 10,479,658;

(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 2022, 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
14 September 2021

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 36 and 37.
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. 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 Group, 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 Group at 10th Floor, Central Square, 29 Wellington Street, Leeds LS1 4DL 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 using a form of proxy issued by the Company. 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.
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.

Notice of Annual General Meeting / continued

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 9 September 2021 (being the latest practicable date before the publication of this document) the Company's issued share capital consisted of 85,879,913 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 85,879,913.

Investor information and advisers

Financial calendar

We will hold our 2021 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 12 October 2021.

We are keen to welcome shareholders in person to our 2021 Annual General Meeting this year, particularly given the constraints we faced in 2020 due to the COVID-19 pandemic. At present, it is possible under guidelines to allow shareholders to attend the AGM and therefore we are proposing to welcome shareholders to attend the AGM within safety constraints and in accordance with government guidelines. Shareholders who cannot attend the AGM should email any questions they have, or would normally raise during the course of the AGM to the Company Secretary (Ben.Harber@shma.co.uk). Given the constantly evolving nature of the COVID-19 situation, should circumstances change before the time of the AGM, we want to ensure that we are able to adapt arrangements, within safety constraints and in accordance with government guidelines. Should we have to change arrangements, we will issue a further communication via a Regulatory Information Service. As such, we strongly recommend shareholders monitor such communications, which can also be found on our website at www.cityoflondongroup.com. Shareholders wishing to appoint a proxy are encouraged to appoint the Chair as their proxy with their voting instructions.

Half-year results (available online only) December 2021

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
London
EC3V 0HR
Tel: 020 3795 2680
Company number: 01539241
Email: office@cityoflondongroup.com
Website: www.cityoflondongroup.com

Company Secretary

Ben Harber
6th Floor
60 Gracechurch Street
London
EC3V 0HR

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Nominated adviser and broker

Peel Hunt LLP
100 Liverpool Street
London
EC2M 2AT

Bankers

Lloyds Bank plc
2nd Floor
25 Gresham Street
London
EC2V 7HN

Registrar and transfer office

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

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

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