City of London Group plc

Interim Results for the six months ended 30 September 2021

Contents

TIDM: CIN

21 December 2021

City of London Group plc

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

Results for the six-month period ended 30 September 2021

The Company announces its unaudited interim results for the six-month period from 1 April 2021 to 30 September 2021, along with an update on business developments.

Business developments

- **Recognise Bank fully licensed in September**
  After receiving its Authorisation with Restriction (AwR) in November 2020, Recognise Bank became fully authorised in September 2021 when restrictions set by the PRA were lifted after all mobilisation conditions were met, allowing the Bank to accept savings deposits.

- **Successful savings launch within two working days**
  Recognise Bank launched its first personal savings products within two working days of receiving its full licence. Both the market leading 5-Year Fixed Rate account and 95-Day Notice account proved popular with depositors, attracting deposits of over £60m.

- **Lending momentum building with over £1bn lending proposals received**
  Since Recognise Bank commenced operations in November 2020 it has received over £1bn of lending proposals and partnered with over 60 commercial finance brokers, who provide a strong pipeline of new lending opportunities.

- **Technology driven by unique Recognise Digital Ecosystem**
  Recognise Bank's technology harnesses world class technology partners, including Mambu and nCino, with our own proprietary systems, to provide immediate speed and convenience for customers, while also creating an infinitely scalable 'Lego-Bank' platform to support fast-paced development and new product launches.

- **Recognise Bank is already winning awards**
  Recognise Bank won the top honour in the Fintech Finance Awards, 'Wow! We can build a bank' and has also been named 'Best SME Bank 2021' in the SME News Finance Awards.

- **Successful cash raise in September to support Recognise Bank growth**
  The Company raised £11.6m before expenses in September from shareholders, including two of its major shareholders who continue to support the Group. The net proceeds, together with funds generated from the sale of non-core businesses and internally, have been invested in Recognise Bank to support its capital base and allow it to continue to focus on building its lending portfolio.

Financial results

- Loss before tax £5.8m, including £5.6m from Recognise Bank, in line with its business plan, as it develops its business (2020/21 first half loss before tax £2.6m after absorbing costs of £2.8m associated with the UK banking licence application).

Philip Jenks, Chair, commented:

"We are delighted that our subsidiary, Recognise Bank, became a fully licensed UK SME bank in September when the PRA lifted all restrictions, so allowing entry to the UK savings market. Recognise Bank successfully launched its first savings products within 2 days of this and is now in a position to drive forward its business plan and focus on meeting the future needs of the UK SME business sector.

In achieving a UK banking licence, we are indebted to the hard work and vision of the Recognise Bank team and also to the continuing support from engaged shareholders who understand the SME market and share our vision to deliver a successful, safe and sustainable bank deploying the latest technology.

The results for the six months reflect the costs incurred in developing the Recognise Bank business and are in line with the business plan.

During the six months, the divestment of the Group's non-core businesses has been completed, subject to regulatory approval for the sale of Milton Homes. The run-off of the PFS and CAML/PFL portfolios continues to progress smoothly with future customer lending requirements being considered through Recognise Bank.

While uncertainties on the continuing impact of the COVID-19 pandemic remain, we believe the fundamentals in the UK continue to point to steady economic recovery.

Recognise Bank, which has no legacy book and a highly experienced management team, is well positioned to capitalise upon the opportunities this will offer. The funds invested in Recognise Bank to date will support future balance sheet growth as Recognise Bank implements its business plan and moves towards break even."

For further information:

City of London Group plc	+44 (0)20 3988 6504
David Jenkins	
Ben Peters (Director of Investor Relations)	
Peel Hunt LLP (Nominated Adviser and Broker)	+44 (0)20 7418 8900
James Britton	
Rishi Shah	
For media enquiries, please contact:	
Paul Beadle, Head of Communications,	+44 (0)7801 105001
Recognise Bank	
(Paul.Beadle@recognisebank.co.uk**)**	

LEI: 2138003UW63TMQ5ZFD85

Notes to Editors:

City of London Group plc is quoted on AIM (TIDM: CIN) and is a forward-thinking organisation which is focused on serving the UK SME market through its subsidiary, Recognise Bank. While grounded in traditional values, it is primed for future growth through the strength and depth of expertise in its expanding team.

www.cityoflondongroup.com

Chair's review

I am pleased to present this review which covers the period from 1 April 2021.

Business review

The Group achieved a major milestone in September 2021 when the PRA lifted the restrictions imposed on Recognise Bank after capital adequacy requirements had been met. With the ability to access the UK savings market, Recognise Bank is now in a position to drive forward its business plan as explained in more detail below. The Group has achieved this goal as a result of the hard work and vision of the Recognise Bank team over the last three years and the Group is indebted to everyone involved.

Since April 2021, the Company has invested a further £21.95m in Recognise Bank Limited to support its continuing growth, with the funds coming from the September cash raise, the disposal of our non-core businesses and internally generated funds.

In September we raised £10.35m from two of our major shareholders and £1.2m from other existing shareholders, before expenses. We greatly appreciate the continuing support of our shareholders which will enable us to deliver our strategy of meeting the needs of the SME business market. We are fortunate to have highly experienced and engaged shareholders who understand the SME sector and share our vision.

With all new lending activities being undertaken through Recognise Bank, the run-off of the existing loan and lease portfolios of CAML and PFS is proceeding to plan with funds being redeployed in Recognise Bank as they become available.

The results for the six month period reflect the costs incurred by Recognise Bank in developing its business. The results are in line with its business plan as, in anticipation of being granted a full UK banking licence, it expanded its headcount to support its development and ensure it could take advantage of the opportunities afforded by having a full licence.

Recognise Bank Limited ("Recognise Bank")

The receipt of a full UK banking licence in September was a great achievement for everyone connected to Recognise Bank and not least the incredible colleagues who worked so hard to deliver a fresh and competitive new banking proposition for UK SMEs. The Recognise Bank team have, over the past three years, developed an enviable reputation for business execution, cost management and extracting maximum value and flexibility from the cloud based technology platform which remains ahead of the market.

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

£'000	6 months to 30/09/21	6 months to 30/09/20	Year to 31/03/21
Revenue	317	-	76
Loss before tax	(5,567)	(2,767)	(7,812)

By the end of September 2021, the business had grown to 60 FTE with additional front line recruitment over the period to support our ambitious growth plans and fully operational business hubs in London, Manchester, Leeds and Birmingham. The Recognise Bank team of 15 Business Development managers are located in these offices. They do not only generate their own lending opportunities but also work closely with over 60 highly experienced commercial finance brokers who refer lending opportunities from their own networks of highly valued partners. This allows Recognise Bank to access a much wider target market. Since commencing lending operations in November 2020, Recognise Bank has received over £1bn in lending applications.

Recognise Bank's cloud-based lending platform has been fully operational since November 2020 and we continue to develop and enhance its capability to support our key strengths of speed of decision making, flexible structuring, fast paced drawdowns and, most importantly, genuine relationship management. This combination of versatile, state of the art technology and experienced relationship managers are the keys to our success, and we are already seeing a very positive customer response and repeat business from customers who recognise the difference we deliver. Recognise Bank launched with four lending products, commercial property, working capital, bridging and professional practice loans. In November 2021 we also launched a very competitive Professional Buy to Let loan product targeted at the UK's growing army of professional landlords.

As a further demonstration of the management team's track record of detailed planning and successful execution, Recognise Bank delivered its first two personal savings products within two working days of receiving authorisation from the PRA. The 5-Year Fixed Rate bond and the 95-Day Notice account both enjoyed a smooth market launch, testimony to nearly 18 months of detailed preparation. All savings are protected by the Financial Services Compensation Scheme (FSCS) and, in line with our strategy, we plan to launch Business Savings early in the first quarter of 2022.

As delighted as we are to have reached this important stage in the bank's development, the market opportunity for a new UK SME bank dedicated to delivering what business owners really need is just as strong as ever and we remain equally ambitious to build and grow over the coming years. The lending and savings platforms are fully operational, and we believe Recognise Bank now has a unique opportunity to accelerate its digital capability and breakthrough thinking by harnessing intellectual resource from within the UK and globally. Our vision is to deliver a successful, safe and sustainable bank deploying the latest technology to lead, not follow, its competitors, and to open up new markets whilst controlling risk and costs.

Property & Funding Solutions Ltd ("PFS")

The run-off of the loan portfolio of PFS continued during the period as existing short-term property loans matured and were repaid. Future customer funding requirements will be considered through Recognise Bank as bridging lending is one of its core products.

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

£'000	6 months to 30/09/21	6 months to 30/09/20	Year to 31/03/21
Revenue	279	409	770
Operating profit	264	202	442
Profit before tax	166	44	109

While the COVID-19 pandemic and resultant lockdown restrictions initially impacted both the residential and commercial property markets, the PFS loan book has proved resilient with no impairment or losses experienced, although there has been a need to extend certain loans to give customers more time to deliver their business plan, including debt repayment. PFS management maintains regular contact with its customers to keep abreast of business plan execution and identify any potential early warning indicators of financial stress. The run-off process has gone smoothly to date. The loan book of £3.23m at 30 September 2021 comprised six loans.

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

The run-off of the existing CAML and PFL loan and lease portfolios continued during the period as individual loans and leases move towards maturity and are repaid. Future SME customer funding requirements for asset backed finance and loans (whether commercial or to professional practice firms) will be considered by Recognise Bank.

CAML has maintained its customer contact programme which commenced in early March 2020 when the likely effect of the COVID-19 pandemic became apparent. Where appropriate, CAML has provided tailored support to customers to help them through a difficult period. Moratorium extensions were offered to businesses in those sectors more severely impacted by imposed trading restrictions. This programme, which has been well received by customers, continued throughout the period to September 2021. No further moratorium requests were received in the six-month period.

The information obtained from this on-going direct customer contact programme was used to inform the IFRS 9 provisioning exercise undertaken as at 31 March 2021: the provisions for anticipated bad and doubtful debts made at that time ensured actual movements in the reporting period ended 30 September 2021 could be fully absorbed.

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

£'000	6 months to 30/09/20	6 months to 30/09/20	Year to 31/03/21
Revenue	298	677	1,130
Operating profit/(loss) before shareholder capital charges	95	(134)	(66)
Loss before tax	(25)	(277)	(297)

CAML made an operating profit before shareholder capital charges of £95k in the period. The loss of £134k in the corresponding prior year period arose from one off business restructuring costs following the decision to place the business in formal wind down.

The run-off process has gone smoothly to date as CAML management maintains contact with customers to identify any potential early warning indicators of financial stress. The outstanding combined CAML and PFL loan and lease portfolios have decreased by around one third over this 6-month period to £4.0m while the funds released have been redeployed to support the development of Recognise Bank.

COLG

Since the year end, COLG has invested a further £21.95m in Recognise Bank to support its on-going development. Some 50% of the funds came from shareholders in the September cash raise exercise while the balance was generated from Milton Homes and funds arising as the CAML loan portfolio runs off.

The cash raise in September realised £11.6m before expenses with 20.93m shares being issued in September and October. Shareholders subscribing for the shares also received warrants on the basis of 1 warrant for every 2 shares subscribed for, which entitle warrant holders to subscribe for ordinary shares at 69p each within 3 years from the date of issue.

The Group has divested itself of its non-core businesses following the sale by COLG of Acorn to Oaks Financial Services Limited on 1 April 2021 and the sale of Milton Homes Limited announced on 3 September 2021, subject to FCA approval, which is anticipated to be received in the next few months. As per the sale agreement, profits arising after 31 March 2021 are being retained in Milton Homes for the benefit of the purchaser, no review of this business has been included. Under the sale arrangements for Milton Homes, the Company received cash of £9.0m in September on the repayment of the Milton Homes Deep Discount Bonds.

Risks

The principal risks of the Group are reviewed by the Board, which reviews and agrees policies for managing these risks. The key risks described in the Strategic Report in the 2021 Annual Report are still appropriate.

The 2021 Annual Report also included information on financial risk management in Notes 32 and 33 of the financial statements. This also remains relevant.

Outlook

The strategy of the Group to build a new UK bank focused on the SME business sector has remained consistent since 2017 and we have reached an exciting point in its delivery. While uncertainties on the continuing impact of the COVID-19 pandemic remain, we believe the fundamentals in the UK continue to point to steady economic recovery which, Recognise Bank, having no legacy book and a highly experienced management team, is well positioned to capitalise upon. The investment the Group has made in Recognise Bank over recent years has been deployed prudently and carefully. The funds from the most recent fundraise will support future balance sheet growth which we confidently anticipate as Recognise Bank implements its business plan and moves towards break even.

Philip Jenks
Chair

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

This half-yearly report has been drawn up and presented with the purpose of complying with English law. Any liability arising out of or in connection with the half-yearly report for the six months to 30 September 2021 will be determined in accordance with English law. The half-yearly results for 2021 and 2020 have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

21 December 2021

Unaudited interim results

Condensed consolidated income statement

	Notes	6 months to 30/09/21 £'000 (unaudited)	6 months to 30/09/20 £'000 (unaudited) (restated)	Year to 31/03/21 £'000 (audited)
Revenue	2			
Interest income		860	1,043	1,900
Other		34	43	76
Cost of sales	2	(14)	(1)	(13)
Gross profit		880	1,085	1,963
Administrative expenses	4	(6,896)	(4,799)	(11,534)
Other income		27	61	103
Loss from operations		(5,989)	(3,653)	(9,468)
Finance expense		(180)	(386)	(651)
Loss before tax		(6,169)	(4,039)	(10,119)
Tax credit/(expense)	5	–	–	–
Loss for the period from continuing operations		(6,169)	(4,039)	(10,119)
Profit/(loss) for the period from discontinued operations	9	379	1,392	(2,760)
Loss for the period		(5,790)	(2,647)	(12,879)
Basic and diluted earnings per share attributable to owners of the parent	7			
Continuing operations		(7.57)p	(9.78)p	(16.84)p
Discontinued operations		0.47p	3.37p	(4.59)p
		(7.10)p	(6.41)p	(21.43)p

The loss in each period is wholly attributable to the owners of the parent.

Condensed consolidated statement of comprehensive income

	6 months to 30/09/21 £'000 (unaudited)	6 months to 30/09/20 £'000 (unaudited) (restated)	Year to 31/03/21 £'000 (audited)
Loss from continuing operations	(6,169)	(4,039)	(10,119)
Profit/ loss from discontinued operations	379	1,392	(2,760)
Total loss	(5,790)	(2,647)	(12,879)
Other comprehensive income			
Item that will not be reclassified to profit or loss			
Income from legal case investments	1	–	–
Other comprehensive income from continuing operations	–	–	–
Total other comprehensive income	1	–	–
Total comprehensive expense from continuing operations	(6,168)	(4,039)	(10,119)
Total comprehensive income/(expense) from discontinued operations	379	1,392	(2,760)
Total comprehensive expense	(5,789)	(2,647)	(12,879)

Unaudited interim results

Condensed consolidated balance sheet

	Notes	30/09/21 £'000 (unaudited)	31/03/21 £'000 (audited)	30/09/20 £'000 (unaudited)
Assets				
Non-current assets				
Investment properties		–	–	37,380
Financial assets – equity release plans		–	–	31,309
Intangible assets	8	959	1,028	2,707
Property, plant and equipment		145	150	171
Right-of-use assets		338	369	509
Loans		16,651	7,149	2,281
Finance leases		568	988	1,224
Total non-current assets		**18,661**	**9,684**	**75,581**
Current assets				
Loans		4,951	7,496	9,009
Finance leases		373	398	743
Trade and other receivables		2,677	3,071	3,675
Debt securities		11,499	6,500	–
Cash and cash equivalents		24,705	14,493	5,645
		44,205	31,958	**19,072**
Assets in disposal group classified as held for sale	9	62,848	66,294	–
Total current assets		**107,053**	**98,252**	**19,072**
Total assets		**125,714**	**107,936**	**94,653**
Current liabilities				
Borrowings		(3,228)	(4,022)	(3,883)
Other creditors		(8,037)	(4,424)	(4,594)
Lease liabilities		(241)	(289)	(307)
		(11,506)	(8,735)	(8,784)
Liabilities directly associated with assets in disposal group classified as held for sale	9	(62,598)	(56,730)	–
Total current liabilities		**(74,104)**	**(65,465)**	**(8,784)**
Non-current liabilities				
Borrowings		(474)	(2,976)	(60,145)
Other creditors		(6,888)	–	(154)
Lease liabilities		(54)	(109)	(270)
Deferred tax liability		–	–	(786)
Total non-current liabilities		**(7,416)**	**(3,085)**	**(61,355)**
Total liabilities		**(81,520)**	**(68,550)**	**(70,139)**
Net assets		**44,194**	**39,386**	**24,514**
Equity				
Share capital	10	2,096	1,615	940
Share premium	10	96,534	82,775	57,190
Capital reserve		3,648	3,648	3,648
Equity Instruments		–	–	1,293
Accumulated losses		(58,084)	(48,652)	(38,557)
Equity attributable to owners of the parent		44,194	39,386	24,514
Non-controlling interests		–	–	–
Total equity		**44,194**	**39,386**	**24,514**

Unaudited interim results

Condensed consolidated statement of changes in equity

Attributable to owners of the parent company	Accumulated losses £'000	Capital reserve £'000	Share premium £'000	Share capital £'000	Total Equity £'000
At 31 March 2021 (audited)	**(48,652)**	**3,648**	**82,775**	**1,615**	**39,386**
Loss for the period - continuing operations	(6,169)	–	–	–	(6,169)
Profit for the period - discontinued operations	379	–	–	–	379
Other comprehensive income					
Income from legal case investments	1	–	–	–	1
Total comprehensive expense	(5,789)	–	–	–	(5,789)
Contributions by and distributions to owners					
Share-based payments	144	–	–	–	144
Issue of shares to Employee Benefit Trust	(3,787)	–	3,684	103	–
Issue of shares under Subscription Agreements	–	–	10,075	378	10,453
Total contributions by and distributions to owners	(3,643)	–	13,759	481	10,597
At 30 September 2021 (unaudited)	**(58,084)**	**3,648**	**96,534**	**2,096**	**44,194**

There were no non-controlling interests during the period to 30 September 2021.

Unaudited interim results

Condensed consolidated statement of changes in equity (continued)

	Attributable to owners of the parent company						Attributable to non-controlling interests	
	Equity instrument £'000	**Accumulated losses £'000**	**Capital reserve £'000**	**Share premium £'000**	**Share capital £'000**	**Total £'000**	**£'000**	**Total Equity £'000**
At 31 March 2020 (audited)	**1,293**	**(31,474)**	–	**50,799**	**4,448**	**25,066**	–	**25,066**
Loss for the period - continuing operations	–	(4,039)	–	–	–	(4,039)	–	(4,039)
Profit for the period - discontinued operations	–	1,392	–	–	–	1,392	–	1,392
Total comprehensive expense	–	(2,647)	–	-	-	(2,647)	–	(2,647)
Contributions by and distributions to owners								
Share-based payments	–	45	–	–	–	45	–	45
Transfer on cancellation of Deferred shares	–	–	3,648	–	(3,648)	–	–	–
Issue of shares to Employee Benefit Trust	–	(1)	–	1	-	–	–	–
Issue of shares on conversion of 6% Convertible Unsecured Loan Notes 2021	–	–	–	2,022	28	2,050	–	2,050
Acquisition of minority interest in Recognise Bank Limited on exercise of put option by minority shareholders	–	(4,480)	–	4,368	112	–	–	–
Total contributions by and distributions to owners	–	(4,436)	3,648	6,391	(3,508)	2,095	–	2,095
At 30 September 2020 (unaudited)	**1,293**	**(38,557)**	**3,648**	**57,190**	**940**	**24,514**	–	**24,514**
Loss for the period - continuing operations	–	(6,080)	–	–	–	(6,080)		(6,080)
Loss for the period - discontinued operations	–	(4,152)	–	–	–	(4,152)		(4,152)
Other comprehensive income – continuing operations								
Change in fair value of debt securities	–	–	–	–	–	–	–	–
Total comprehensive expense	–	(10,232)	–	–	–	(10,232)	–	(10,232)
Contributions by and distributions to owners								
Share-based payments	–	137	–	–	–	137	–	–
Issue of shares following cash raise	–	–	–	25,585	675	26,260	–	26,260
Transfer to current liabilities	(1,293)	–	–	–	–	(1,293)	–	(1,293)
Total contributions by and distributions to owners	(1,293)	137	–	25,585	675	25,104	–	25,104
At 31 March 2021 (audited)	–	**(48,652)**	**3,648**	**82,775**	**1,615**	**39,386**	–	**39,386**

Unaudited interim results

Condensed consolidated statement of cash flows

	6 months to 30/09/21 £'000 (unaudited)	6 months to 30/09/20 £'000 (unaudited)	Year to 31/03/21 £'000 (audited)
Cash flows from operating activities			
Loss before taxation			
Continuing operations	(6,169)	(4,039)	(10,119)
Discontinued operations	379	1,369	(2,528)
	(5,790)	(2,670)	(12,647)
Adjustments for:			
Depreciation and amortisation	296	172	399
Share-based payments	144	45	182
Provision for bad and doubtful debts	7	–	138
Impairment of goodwill	-	117	117
Change in value of business units held for disposal/ on reclassification as disposal groups	(379)	–	6,657
Investment properties and equity release plan financial assets:			
Increases in the fair value of these assets	–	(2,857)	(6,712)
Realised gains on the disposal of these assets	–	(655)	(1,082)
Equity transfer income	–	(394)	(1,212)
Interest payable	179	2,322	4,514
Changes in working capital:			
Decrease/ (increase) in trade and other receivables	394	(674)	(692)
Increase in trade and other payables	2,151	754	1,419
Leases advanced	–	(6)	(7)
Leases repaid	445	726	1,308
Loans advanced	(11,066)	(470)	(7,914)
Loans repaid	4,102	4,501	8,452
Purchase of Debt securities	(4,999)	–	(6,500)
Cash (used in)/ generated from operations	**(14,516)**	**911**	**(13,580)**
Corporation tax paid	–	–	–
Net cash (used in)/ generated from operating activities	**(14,516)**	**911**	**(13,580)**
Cash flow from investing activities			
Repayment in full of Milton Homes Deep Discount Bonds	9,046	–	–
Proceeds from the sale of investment properties and equity release plan financial assets	–	4,169	8,271
Payment on sale of Acorn to Oaks Financial Services Limited	(140)	–	–
Proceeds from the disposal of equipment	2	–	–
Purchase of rights to CAML 8% Preference shares accrued dividends	(976)	–	–
Purchase of CAML 8% Preference shares	(24)	(450)	(1,250)
Investment in intangible assets	(18)	(299)	(536)
Purchase of property, plant and equipment	(34)	(105)	(127)
Net cash generated from investing activities	**7,856**	**3,315**	**6,358**

Unaudited interim results

Condensed consolidated statement of cash flows (continued)

	6 months to 30/09/21 £'000 (unaudited)	6 months to 30/09/20 £'000 (unaudited)	Year to 31/03/21 £'000 (audited)
Cash flow from financing activities			
Proceeds from issue of ordinary shares	10,453	–	26,260
Deposits from customers of Recognise Bank	8,736	–	–
Loans drawn down	–	294	294
Repayment of loans	(1,979)	(5,641)	(10,488)
Payments of lease liabilities	(254)	(164)	(357)
Interest paid	(84)	(289)	(443)
Net cash used in financing activities	**16,872**	**(5,800)**	**15,266**
Net decrease in cash and cash equivalents	**10,212**	**(1,574)**	**8,044**
Cash and cash equivalents brought forward	14,493	7,219	7,219
Cash included as Assets in disposal groups classified as held for sale	–	–	(770)
Net cash and cash equivalents	**24,705**	**5,645**	**14,493**

Operating, investing and financing activities are categorised as follows:			
Net cash used in operating activities			
Continuing operations	(14,516)	1,323	(12,556)
Discontinued operations	–	(412)	(1,024)
	(14,516)	911	(13,580)
Net cash generated from investing activities			
Continuing operations	7,856	(851)	(1,910)
Discontinued operations	–	4,166	8,268
	7,856	3,315	6,358
Net cash generated from/ (used in) financing activities			
Continuing operations	16,872	(2,575)	21,442
Discontinued operations	–	(3,225)	(6,176)
	16,872	(5,800)	(15,266)

Unaudited interim results

Changes in liabilities arising from financing activities

	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2020	**63,041**	**7,506**	**70,547**
Cash flows	(3,244)	(2,597)	(5,841)
Non-cash flow			
Conversion of 6% Unsecured Loan Stock 2021	–	(2,050)	(2,050)
Non- current borrowings becoming current borrowings	(1,323)	1,323	–
Interest accrued in period	1,941	8	1,949
At 30 September 2020	**60,415**	**4,190**	**64,605**
Cash flows	(3,518)	(2,098)	(5,616)
Non-cash flow			
Non- current borrowings becoming current borrowings	(55,410)	55,410	–
Lease liabilities	(333)	333	–
Transfer of Rollover Loan Notes 2021 from Equity	–	1,293	1,293
Interest accrued in period	1,931	7	1,938
At 31 March 2021	**3,085**	**59,135**	**62,220**
Cash flows	(39)	(2,218)	(2,257)
Non-cash flow			
Borrowings included in liabilities directly associated with assets in disposal group held for sale	–	(54,824)	(54,824)
Cancellation of Rollover Loan Notes 2021 on sale of Acorn to Oaks Financial Services Limited	–	(1,293)	(1,293)
Non-current borrowings becoming current borrowings	(2,478)	2,478	–
Lease liabilities	(44)	183	139
Interest accrued in period	4	8	12
At 30 September 2021	**528**	**3,469**	**3,997**

Notes to condensed financial statements

1 Basis of preparation

1.1 These interim financial results do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and have been neither audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. Statutory accounts for the year ended 31 March 2021 were approved by the directors on 9 September 2021 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified and did not contain any statement within the meaning of section 498 of the Companies Act 2006.

Going concern

The condensed consolidated financial statements have been prepared on a going concern basis which the directors consider to be appropriate following their assessment of the Group's financial position and its ability to meet its obligations as and when they fall due. The directors have reviewed in detail the monthly cash flow forecast for the period to 31 December 2022 and challenged the assumptions in the forecast, including those relating to the raising of additional capital to support the growth of banking activities.

1.2 Accounting policies

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". The condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2021, which were prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed consolidated financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 March 2021, except in relation to the presentation of information on Discontinued operations and disposal groups (see note 1.5).

1.3 Adoption of new standards and interpretations

The adoption of new standards and amendments to standards remains as set out in note 2.2 of the Annual Report 2021 with none falling to be adopted in the current financial period:

1.4 Consistency

The interim report, including the financial information contained therein is the responsibility of, and was approved by, the directors on 21 December 2021. The AIM Rules require that accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing annual accounts except where any changes, and the reason for them, are disclosed.

There have been no changes to the Group's accounting policies in the period to 30 September 2021.

Notes to condensed financial statements

Continued

1 Basis of preparation (continued)

1.5 Discontinued operations and disposal groups

During the year ended 31 March 2021, the Company decided the Group should focus its activities on the development and growth of Recognise Bank and divest itself of its other activities. Accordingly, Milton Homes Limited ("Milton Homes"), which administers a portfolio of home reversion plans, and Acorn to Oaks Financial Services Limited ("Acorn to Oaks"), a financial services intermediary, were reclassified as disposal groups as at 31 March 2021.

In order to focus on the Group's continuing operations, information on continuing and discontinued operations has been disclosed separately with information on discontinued operations and the disposal groups being given in note 9. As a consequence, the presentation of certain information in prior periods differs from that in the 2021 Annual Report and the 2020 Interim Report.

2 Revenue and cost of sales

Revenue	**6 months to 30/09/21 £'000 (unaudited)**	**6 months to 30/09/20 £'000 (unaudited) (restated)**	**Year to 31/03/21 £'000 (audited)**
Recognise Bank (a)	317	–	76
CAML (b)	298	677	1,130
Property & Funding Solutions (c)	279	409	770
Total revenue	**894**	**1,086**	**1,976**
(a) Recognise Bank			
Loan interest	316	–	76
Arrangement fees	1	–	-
	317	–	76
(b) CAML			
Loan and lease interest	298	675	1,127
Arrangement fees	–	2	3
	298	677	1,130
(c) Property & Funding Solutions			
Property bridging loan interest	246	368	697
Arrangement fees	33	41	73
	279	409	770
Cost of sales			
Commissions and introduction fees	14	1	13
Other direct costs	–	–	–
Total cost of sales	**14**	**1**	**13**

All revenue arises in the United Kingdom.

The revenue and cost of sales of discontinued operations are shown in note 9.

Notes to condensed financial statements

Continued

3 Segmental reporting

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

The Group is managed through its operating businesses. Information on the activities of each business is given in the Chair's review. The COLG segment includes the Group's central functions.

Pre-tax profit and loss 6 months ended 30/09/21 (unaudited)		**Revenue £'000**	**Operating profit/(loss) £'000**	**Finance expense £'000**	**Quasi-equity intra group payments (a) £'000**	**Profit/(loss) before tax £'000**
COLG	Intra-Group	36	406	–	–	406
	Reassessment of value of disposal groups	–	339	–	–	339
	Other	–	(1,090)	(9)	–	(1,099)
		36	(345)	(9)	-	(354)
Banking activities		317	(5.639)	(5)	77	(5,567)
Loan, lease and professions financing						
Asset based finance, commercial and professional loans		298	156	(145)	(36)	(25)
Property bridging finance		279	264	(21)	(77)	166
Other		–	(10)	–	–	(10)
Intra-Group		(36)	(36)	–	36	–
		894	**(5,610)**	**(180)**	**–**	**(5,790)**
Continuing operations		894	(5,989)	(180)	–	(6,169)
Discontinued operations (b)		–	379	–	–	379
		894	(5,610)	(180)	–	(5,790)

(a) Quasi-equity intra group payments comprise interest payable to Recognise Bank and dividends on preference shares payable to COLG.

(b) See note 9. The operating profit of discontinued operations principally comprises the net increase in the value of the Milton Homes disposal group following the conditional agreement for its sale on 3 September 2021.

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Pre-tax profit and loss **6 months ended** **30/09/20 (unaudited)**		**Revenue** **£'000**	**Operating profit/(loss)** **£'000**	**Finance expense** **£'000**	**Quasi-equity intra group payments (a)** **£'000**	**Profit/(loss) before tax** **£'000**
COLG	Intra-Group	606	927	–	–	927
	Other	–	(1,568)	(58)	–	(1,626)
		606	(641)	(58)	–	(699)
Continuing operations						
Banking licence application		–	(2,767)	–	–	(2,767)
Loan, lease and professions financing						
Asset based finance, commercial and professional loans		677	45	(289)	(33)	(277)
Property bridging finance		409	202	(39)	(119)	44
Other		–	(5)	–	–	(5)
Intra-Group		(606)	(606)	–	606	–
Discontinued operations						
Home reversion plans		3,907	3,440	(1,934)	(454)	1,052
Financial services intermediary		380	(16)	(2)	–	(18)
		5,373	**(348)**	**(2,322)**	–	**(2,670)**
Continuing operations		1,086	(3,653)	(386)	–	(4,039)
Discontinued operations (b)		4,287	3,305	(1,936)	–	1,369
		5,373	(348)	(2,322)	–	(2,670)

(a) Quasi-equity intra group payments comprise interest payable to COLG.
(b) See note 9.

Consolidated Net Assets at 30/09/21 (unaudited)

		Total **£'000**
COLG	Bank	61,309
	Loan, lease and professions financing	174
		61,483
	Assets classified as held for sale	250
	Other net assets	9,034
Net assets per entity balance sheet		70,767
Net liabilities of subsidiary companies and charges to consolidated reserves		(26,573)
Consolidated Net Assets		**44,194**

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Consolidated Net Assets at 31/03/21 (audited)

		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
Net liabilities of subsidiary companies and charges to consolidated reserves		(17,282)
Consolidated Net Assets		**39,386**

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

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

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

Notes to condensed financial statements

Continued

4 Administrative expenses

	6 months to 30/09/21 £'000 (unaudited)	6 months to 30/09/20 £'000 (unaudited) (restated)	Year to 31/03/21 £'000 (audited)
Staff costs:			
Payroll expenses	4,442	3,463	7,674
Other staff costs	182	59	265
Establishment costs:			
Property costs	133	205	455
IT costs	454	116	470
Other	669	275	790
Auditor's remuneration	204	104	282
Legal fees	46	6	36
Consultancy fees	47	54	218
Other professional fees	416	347	903
Provisions for bad and doubtful debts under IFRS 9	7	–	138
Depreciation and amortisation	296	170	395
Reduction in deferred consideration	–	–	(92)
Total	**6,896**	**4,799**	**11,534**

The above table relates to continuing operations. Administrative expenses for discontinued operations are shown in note 9.

Notes to condensed financial statements

Continued

5 Taxation

The provision for the six month period to 30 September 2021 of nil is based on the best estimate of the effective rate for the full year, as the charge for taxation is for a period of less than one year.

The provision in respect of discontinued operations is included in note 9.

6 Dividends

The directors have not declared an interim dividend for the year ending 31 March 2022 (Interim 2021: nil). The directors did not recommend payment of a final dividend for the year ended 31 March 2021.

7 Earnings per share

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

	30/09/21 (unaudited)	30/09/20 (unaudited) (restated)	31/03/21 (audited)
(Loss)/ profit attributable to equity holders (£'000)			
Continuing operations	(6,169)	(4,039)	(10,119)
Discontinued operations	379	1,392	(2,760)
	(5,790)	(2,647)	(12,879)
Weighted average number of ordinary shares of 2p in issue ('000)	81,534	41,283	60,090
Basic and diluted earnings per ordinary share of 2p			
Continuing operations	(7.57)p	(9.78)p	(16.84)p
Discontinued operations	0.47p	3.37p	(4.59)p
	(7.10)p	(6.41)p	(21.43)p

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

Notes to condensed financial statements

Continued

8 Intangible Assets

	Goodwill £'000	Software licence & development £'000	Total £'000
Cost			
At 31 March 2020	3,615	545	4,160
Additions	–	299	299
At 30 September 2020	3,615	844	4,459
Additions	–	237	237
Reclassified as assets held for sale	(3,615)	–	(3,615)
At 31 March 2021	–	1,081	1,081
Additions	–	18	18
At 30 September 2021	–	1,099	1,099
Accumulated amortisation and impairment			
At 31 March 2020	1,633	1	1,634
Charge	117	1	118
At 30 September 2020	1,750	2	1,752
Charge	–	51	51
Reclassified as assets held for sale	(1,750)	–	(1,750)
At 31 March 2021	–	53	53
Charge	–	87	87
At 30 September 2021	–	140	140
Carrying amount			
At 30 September 2021 (unaudited)	**–**	**959**	**959**
At 31 March 2021 (audited)	–	1,028	1,028
At 30 September 2020 (unaudited)	1,865	842	2,707

Notes to condensed financial statements

Continued

9 Discontinued operations and disposal groups

	30/09/21 (unaudited) £'000	31/03/21 (audited) £'000
Assets in disposal groups classified as held for sale		
Milton Homes	62,848	64,557
Acorn to Oaks	–	1,737
	62,848	66,294
Liabilities directly associated with assets in disposal groups classified as held for sale		
Milton Homes	62,598	56,107
Acorn to Oaks	–	623
	62,598	56,730
Fair value of disposal groups		
Milton Homes	250	8,450
Acorn to Oaks	–	1,114
	250	9,564

There were no Assets classified as held for sale at 30 September 2020.

As explained in note 1.5, Milton Homes Limited ("Milton Homes") and Acorn to Oaks Financial Services Limited ("Acorn to Oaks") were reclassified as disposal groups as at 31 March 2021. The assets of each business, including the goodwill arising on consolidation, and the liabilities directly related to those assets 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.

Acorn to Oaks was sold on 1 April 2021 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 was 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 fair value of Acorn to Oaks as at 31 March 2021 was assessed by reference to the net consideration of £1,114,000 realised on its sale, which was satisfied by:

	£'000
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.

The sale of Milton Homes to Max Barney Investments Limited, a related party of the Company, was agreed on 3 September 2021, subject to regulatory approval for the change in control from the FCA. An application for such approval has been submitted to the FCA and the sale of the ordinary shares will be completed when this is received.

As part of the arrangements for the sale of Milton Homes, Milton Homes paid the Company £1,200,000 in respect of the Deep Discount Bonds held by the Company on 2 September 2021 and a further £7,846,002 on 3 September 2021 to redeem the Deep Discount Bonds in full. The latter payment was made from the proceeds of an issue of new bonds issued to HPB Pension Trust, an entity associated with Max Barney Investments Limited. Accordingly, as at 30 September 2021, the only asset held for disposal by the Company was its holding of ordinary shares in Milton Homes Limited. The fair value of the assets and associated liabilities of Milton Homes held in the balance sheet as at 30 September 2021 is £250,000, the amount that will be payable on completion.

Notes to condensed financial statements

Continued

9 Discontinued operations and disposal groups (continued)

A charge of £6,657,000 arising on the remeasurement of the carrying amounts of assets transferred to disposal groups was recognised in the consolidated income statement for the year to 31 March 2021. Following a reassessment of the charge of £6,543,000 relating to Milton Homes as at 30 September 2021, a credit of £339,000 has been included in the results from discontinued operations in the current six month period.

Under the terms of the sale agreement, profits of Milton Homes arising after 31 March 2021 are being retained in Milton Homes for the benefit of the purchaser.

The results of discontinued operations are as follows:

	6 months to 30/09/21 £'000 (unaudited)	6 months to 30/09/20 £'000 (unaudited) (restated)	Year to 31/03/21 £'000 (audited)
Revenue (see (a) below)	4,527	4,287	9,890
Cost of sales	–	(146)	(330)
Gross profit	4,527	4,141	9,560
Administrative expenses			
Change in value of business unit on reassessment of value of/ reclassification as disposal groups	339	–	(6,657)
Other	(495)	(846)	(1,579)
Other income	-	10	11
Profit from operations	4,371	3,305	1,335
Finance expense	(2,281)	(1,936)	(3,863)
Profit/ (loss) before tax	2,090	1,369	(2,528)
Tax (expense)/ credit	(122)	23	(232)
	1,968	1,392	(2,760)
Profit retained in disposal group for benefit of purchaser	(1,589)	–	–
Profit/ (loss) from discontinued operations	379	1,392	(2,760)

(a) Revenue

Milton Homes (i)	4,527	3,907	9,005
Acorn to Oaks (ii)	–	380	885
Total revenue	**4,527**	**4,287**	**9,890**
(i) Milton Homes			
Profit on disposal of investment properties	911	528	767
Gain on revaluation of investment properties	1,373	1,386	3,953
Profit on the disposal of equity release plan financial assets	129	127	315
Gain on revaluation of equity release plan financial assets	1,464	1,472	2,759
Equity transfer income arising under equity release plan	650	394	1,211
	4,527	3,907	9,005
(ii) Acorn to Oaks			
Commission	–	247	601
Fees	–	133	284
	–	380	885

Notes to condensed financial statements

Continued

9 Discontinued operations and disposal groups (continued)

The carrying amounts of assets and liabilities in the Milton Homes disposal group at 30 September 2021 after remeasurement of assets were:

	£'000	£'000
Assets		
Investment properties		32,211
Financial assets – equity release plans		29,367
Trade and other receivables		12
Cash at bank		1,258
		62,848
Liabilities related to assets in disposal group		
Trade and other payables	(137)	
Borrowings	(61,420)	
Deferred tax liability	(1,041)	
		(62,598)
Net carrying amount of assets and related liabilities		250

10 Movements in equity

Allotted, called up and fully paid	31/09/21 (unaudited) Number	31/03/21 (audited) Number	31/09/21 (unaudited) £'000	31/03/21 (audited) £'000
Ordinary shares of £0.02	104,796,580	80,727,119	2,096	1,615
			2,096	1,615

The Company did not hold any ordinary shares in treasury at 30 September 2021 (2021: nil). 5,174,643 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 30 September 2021 (2021: 21,849). The Company issued 5,152,794 ordinary shares at 73.5p each on 6 September 2021 to the trustees of the EBT, with the amount of the subscription price being left outstanding on a loan account with the EBT. The purpose of issuing these shares was to meet future share awards to Group employees.   The Company did not transfer any shares into or out of the EBT during the period (2021: nil). The fair value of shares held by the EBT at 30 September 2021 amounted to £3,881,000 (2021: £17,000): these are deducted from equity.

Notes to condensed financial statements

Continued

10 Movements in equity (continued)

On 6 September 2021, the Company issued 5,152,794 ordinary shares at 73.5p each for cash to the trustees of the EBT to satisfy future share awards to Group employees. The subscription price of £3,787,304 was left outstanding on the Company's loan account with the EBT. The premium of £3,684,248 arising on the issue of the shares was credited to Share premium.

Following shareholder approval at a general meeting on 8 September 2021, the Company issued 18,916,667 ordinary shares at 60p each for cash on 14 September 2021 to two of its major shareholders. The Subscription Agreements with these shareholders also provided for the issue of warrants (see below). The premium of £10,075,255 arising on the issue of the shares was credited to Share premium.

The shares and subscription warrants under the Subscription Agreements were issued on the same terms as those in the Open Offer which was sent to shareholders on 13 September 2021. Following the closure of the Open Offer on 28 September 2021, 2,016,388 ordinary shares and 1,008,180 warrants were issued in October 2021.

Further to the Subscription Agreements and the Open Offer, the Company has issued subscription warrants which permit the holders of the warrants to subscribe for ordinary shares in the Company at a price of 69p per share in cash during the exercise period of 3 years from the date of issue. One subscription warrant was issued for every two shares subscribed for under the Subscription Agreements and the Open Offer. The effective issue dates were 14 September 2021 for the 9,458,333 Subscription Agreement warrants and 5 October 2021 for the 1,008,180 Open Offer warrants.

Costs of £896,000 (2021: £726,000) incurred during the period in relation to the issue of shares have been offset against the Company's Share premium.

Notes to condensed financial statements

Continued

10 Movements in equity (continued)

Shares in issue	Deferred Number	Ordinary of £0.02 Number	Deferred £'000	Ordinary £'000
As at 31 March 2020	3,648,415,419	39,960,551	3,648	800
Issued for cash on 16 April 2020	–	500	–	–
Cancelled on 30 April 2020 and transferred to Capital reserve	(3,648,415,419)	–	(3,648)	–
Issued on 7 August 2020 on conversion of 6% Unsecured Loan Stock 2021	–	1,433,565	–	28
Issued on 4 September 2020 following exercise of put option by minority shareholders in Recognise Financial Services Limited	–	5,600,000	–	112
As at 30 September 2020	–	46,994,616	–	940
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
Issued for cash on 6 September 2021		5,152,794		103
Issued for cash on 14 September 2021		18,916,667		378
As at 30 September 2021		**104,796,580**		**2,096**

11 Commitments

The holder of £2,069,914 8% Redeemable Preference Shares issued on 15 July 2015 by a subsidiary, Credit Asset Management Limited, may require the Company to purchase these shares at their face value and any accrued but unpaid dividend after 7 years if the shares are not redeemed by that date.

As at 30 September 2021, Recognise Bank Limited was contractually committed to make future loan advances of £44,326,000 (2021: £6,159,000) to customers.

The Company is contractually committed to issue up to 10,466,513 ordinary shares should holders of the 9,458,333 Subscription Agreement warrants and 1,008,180 Open Offer warrants exercise their right to subscribe for shares at 69p in cash on or before 14 September 2024 and 5 October 2024 respectively, the third anniversary of the dates of issue.

Notes to condensed financial statements

Continued

12 Financial risk management

Notes 32 and 33 to the annual financial statements to 31 March 2021 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk, interest rate risk, price risk and liquidity risk.

The 2021 Annual Report identified the main risk factors relating to the cash flow forecast in the Strategic Report at that time.

13 Financial instruments

A summary of financial instruments to which the impairment requirements in IFRS 9 are applied are listed in the tables below. Financial instruments 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.

Financial Instruments	**30/09/21 £'000 (unaudited)**	**31/03/21 £'000 (audited)**	**30/09/20 £'000 (unaudited)**
Financial assets			
Measured at fair value through profit and loss			
Financial assets - equity release plans	–	–	31,309
Measured at amortised cost			
Loans	21,602	14,645	11,290
Finance leases	941	1,386	1,967
Trade receivables	19	23	227
Other debtors	2,037	2,502	3,104
Cash and cash equivalents	24,705	14,493	5,645
Measured at fair value through other			
Debt securities	11,499	6,500	-
	60,803	**39,549**	**53,542**
Financial Liabilities			
Measured at amortised cost			
Interest-bearing loans	3,702	5,705	64,028
Lease liabilities	295	398	577
Deferred consideration	–	–	154
Trade payables	925	478	646
Other creditors	973	233	231
Deposits from customers of Recognise Bank	8,738	2	–
Dividends payable	1	1	1
Accruals and deferred income	3,789	3,486	3,354
	18,423	**10,303**	**68,991**

Notes to condensed financial statements

Continued

13 Financial instruments (continued)

Price risk

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

The sale of Milton Homes and its subsidiaries was agreed, subject to approval for change in control being given by the FCA, on 3 September 2021. Milton Homes itself is subject to price risk on both the investment properties and financial assets – equity release plans that its subsidiaries hold. The basis of assessing the fair values of these assets is set out in note 3 of the 2021 Annual Report while information on the price risk relating to these is given in note 33 of the 2021 Annual Report. As the consideration for the sale has been agreed, the Group is no longer subject to price risk on these assets.

Both Milton Homes and Acorn to Oaks were classified as disposal groups held for sale as at 31 March 2021 and were included in the accounts for the year ended 31 March 2021 at their estimated net realisable values. The value of both these disposal groups was categorised as a level 3 valuation.

The following table presents the Group's assets that are measured at fair value at 30 September 2021 and 31 March 2021 respectively. No Level 2 assets were held at either date:

Valuation	30/09/21 £'000 (unaudited)	31/03/21 £'000 (audited)
Level 1 assets		
Debt securities	11,499	6,500
Level 3 assets		
Milton Homes disposal group	250	8,450
Acorn to Oaks disposal group	-	1,114
	11,749	16,064

Assets within the Milton Home and Acorn to Oaks disposal groups became Level 3 assets on their reclassification as disposal groups as at 31 March 2021. 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.

Notes to condensed financial statements

Continued

13 Financial instruments (continued)

The movement on level 3 assets is as follows:

	30/09/21 (unaudited) £'000	31/03/21 (audited) £'000	30/09/20 (unaudited) £'000
Balance at 1 April	9,564	68,952	68,952
Equity transfer	–	1,212	394
Revaluations	–	6,712	2,857
Disposals	–	(7,188)	(3,514)
	9,564	69,688	68,689
Transfer to Milton Homes disposal group		(69,688)	
Additions – disposal groups		9,564	
Acorn to Oaks disposal group - disposal	(1,114)		
Milton Homes Deep Discount Bonds – repayment	(9,046)		
Milton Homes – movement in net realisable value	846		
	250	**9,564**	68,689

14 Provisions for impairment under IFRS 9

The provisions for impairment of the Group's current lease and loan portfolio as at 30 September 2021 were assessed on the same basis as set out in note 3(c) of the 2021 Annual Report.

For the Recognise Bank credit portfolio, the IFRS 9 model developed with a third party managed service provider was used, and the existing internally-developed IFRS 9 model was used for the CAML/PFL lease and loan portfolio. Property bridging loans were considered individually to assess lifetime expected losses.

The gross carrying amount of the Group's lease and loan portfolios, including arrears, increased by £5,802,000 from £20,509,000 to £26,311,000 over the period. While the loan portfolios of Recognise Bank and Property & Funding Solutions ("PFS") increased by £8,316,000 to £20,621,000 at 30 September 2021, there was a reduction of £2,514,000 in the CAML/PFL lease and loan portfolio to £5,690,000, including arrears, as the run-off of that portfolio, which began in March 2020, continued.

During the year ended 31 March 2021, the gross carrying amount of the Group's lease and loan portfolios, including arrears, decreased from £22,510,000 to £20,509,000. The loan portfolios of Recognise Bank and PFS increased by £6,437,000 to £12,305,000 at 31 March 2021, while the CAML/PFL lease and loan portfolio decreased by £8,438,000 to £8,204,000, including arrears.

Notes to condensed financial statements

Continued

14 Provisions for impairment under IFRS 9 (continued)

There was an overall reduction of £374,000 in the loss allowance in the period to 30 September 2021 (2021: reduction of £208,000). The increases in the Stage 1 and Stage 2 provisions, which relate to the CAML/PFL portfolio, reflect potential future adverse impacts on SME businesses as the economy emerges from the COVID-19 pandemic. The reduction in the Stage 3 provision is largely due to the run-off of the CAML/PFL portfolio as individual agreements are terminated and written off. 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 comprises the following:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 30 September 2021 (unaudited)				
Loans	263	26	1,211	1,500
Finance leases	191	45	374	610
Provision for impairment	**454**	**71**	**1,585**	**2,110**
At 31 March 2021 (audited)				
Loans	207	21	1,440	1,668
Finance leases	168	32	519	719
Provision for impairment	375	53	1,959	2,387
At 30 September 2020 (unaudited)				
Loans	381	21	1,365	1,767
Finance leases	248	–	512	760
Provision for impairment	629	21	1,877	2,527

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

Notes to condensed financial statements

Continued

14 Provisions for impairment under IFRS 9 (continued)

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 31 March 2020	818	21	1,756	2,595
Movement in provision for impairment				
Transfer to Stage 2	(23)	23	–	–
Transfer to Stage 3	(18)	(7)	25	–
Specific provisions	–	–	118	118
New financial assets originated	4	–	–	4
Other movements	(152)	(16)	–	(168)
Write-offs	–	–	(22)	(22)
Total movement in loss allowance	(189)	-	121	(68)
As at 30 September 2020	629	21	1,877	2,527
Movement in provision for impairment				
Transfer to Stage 2	(16)	16	–	–
Transfer to Stage 3	(18)	–	18	–
Specific provisions	–	–	85	85
New financial assets originated	–	–	–	-
Other movements	(220)	16	–	(204)
Write-offs	–	–	(21)	(21)
Total movement in loss allowance	(254)	32	82	(140)
As at 31 March 2021	375	53	1,959	2,387
Movement in provision for impairment				
Transfer to Stage 2	–	–	–	–
Transfer to Stage 3	(1)	–	1	–
Specific provisions	–	–	34	34
New financial assets originated	7	–	–	7
Other movements	73	18	(106)	(15)
Write-offs	–	–	(303)	(303)
Total movement in loss allowance	79	18	(374)	(277)
As at 30 September 2021	**454**	**71**	**1,585**	**2,110**

Notes to condensed financial statements

Continued

15 Related party transactions

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 £1,414,000. The disposal was a related party transaction as one of the purchasers, Jason Oakley, is a director of Recognise Bank (note 9).

Milton Homes Limited
On 3 September 2021, the Company entered into an agreement to sell the entire issued share capital of Milton Homes Limited and its subsidiaries to Max Barney Investments Limited. 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.

As part of the arrangements for the sale of Milton Homes, the Deep Discount Bonds held by the Company were redeemed in full by Milton Homes for £9,046,002, with £7,846,002 being paid from the proceeds of new bonds issued by Milton Homes on 3 September 2021 to HPB Pension Trust, an entity associated with Max Barney Investments Limited. Following receipt of regulatory approval, a further amount of £250,000 is payable on completion of the sale of the issued share capital.

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.

Capital raise
As set out in note 10, two of the Company's major shareholders, Parasol V27 Limited and Max Barney Investments Limited (together the "Subscribers"), subscribed £11,350,000 for 18,916,667 new ordinary shares at a subscription price of 60p per new ordinary share on 14 September 2021. The Subscribers also received warrants to subscribe for 9,458,333 shares at an exercise price of 69p per new ordinary share over the next three years.

Credit Asset Management Limited 8% Preference Shares ("Preference Shares")
On 16 September 2021, the Company acquired the following from HPB Pension Trust, an entity associated with Max Barney Investments Limited:
(a) Right to receive accrued but unpaid dividends on the Preference Shares owned by HPB Pension Trust for £965,466, being the amount of such dividends as at 15 September 2021; and
(b) 23,912 Preference Shares for £34,534, being the nominal value plus the amount of accrued but unpaid dividends of the Preference Shares at that date.

16 Post balance sheet events

In October 2021, the Company issued 2,016,388 ordinary shares and 1,008,180 warrants to existing shareholders under the terms of the Open Offer (see note 10).

By order of the Board

Philip Jenks
Chair
21 December 2021