

Annual Report and Accounts
2022



OVERVIEW

Highlights	1
Overview	2
Chair's statement	6

STRATEGIC REPORT

Strategic report	9
------------------	---

GOVERNANCE

Directors' biographies	28
Corporate governance statement	32
Directors' Remuneration report	37
Directors' report	41

FINANCIAL STATEMENTS

Consolidated income statement	46
Consolidated statement of comprehensive income	47
Consolidated statement of changes in equity	48
Company statement of changes in equity	49
Consolidated balance sheet	50
Company balance sheet	51
Consolidated statement of cash flows	52
Company statement of cash flows	54
Notes to the financial statements	55
Statement of directors' responsibilities	101
Independent Auditor's report	102

ANNUAL GENERAL MEETING

Notice of Annual General Meeting	113
Investor information and advisers	Inside back cover



City of London Group Plc ('COLG' or 'The Company') is the parent company of Recognise Bank which focuses on serving the UK SME market."

Highlights

Business development

Recognise Bank fully licensed in September 2021

Recognise Bank achieved its objective of becoming a fully authorised bank in September 2021, allowing it to accept savings deposits.

£100 million lending target met

Recognise Bank hit its target of lending £100m to British businesses by the year end, just over six months after achieving full authorisation. This came from a pipeline of £1bn in lending proposals, evidence of the pent-up demand from SMEs.

Personal savings products generated £95m in deposits at 31 March 2022

Recognise Bank's saving products, which were first launched two days after receiving full authorisation in September 2021, proved popular with savers, including the market leading 5-year Fixed Rate account and 95 Day Notice account.

Award winning technology and innovation

Recognise Bank's digitally enabled relationship banking model won the top honour in the Fintech Finance Awards 2021, 'Wow! We can build a bank!', in partnership with Mambu, Recognise Bank's cloud banking provider. It was also named 'Best SME Bank 2021' in the SME News Finance Awards.

Successful cash raises support Recognise Bank growth

The Company raised £12.6m before expenses during the year from shareholders, including two of its major shareholders. Since the year end, these two shareholders have continued their support by investing a further £6.5m cash in the Company. 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 growth and investment in technology.

Financial results

£13.3m loss

Loss before tax after crediting profit of £0.3m from discontinued operations (2021: loss before tax £12.6m after absorbing costs of £2.5m from discontinued operations)

£101.1m

Loan book at 31 March 2022 (2021: £18.0m)

£95.0m

Deposits with Recognise Bank at 31 March 2022 (2021: £2k)

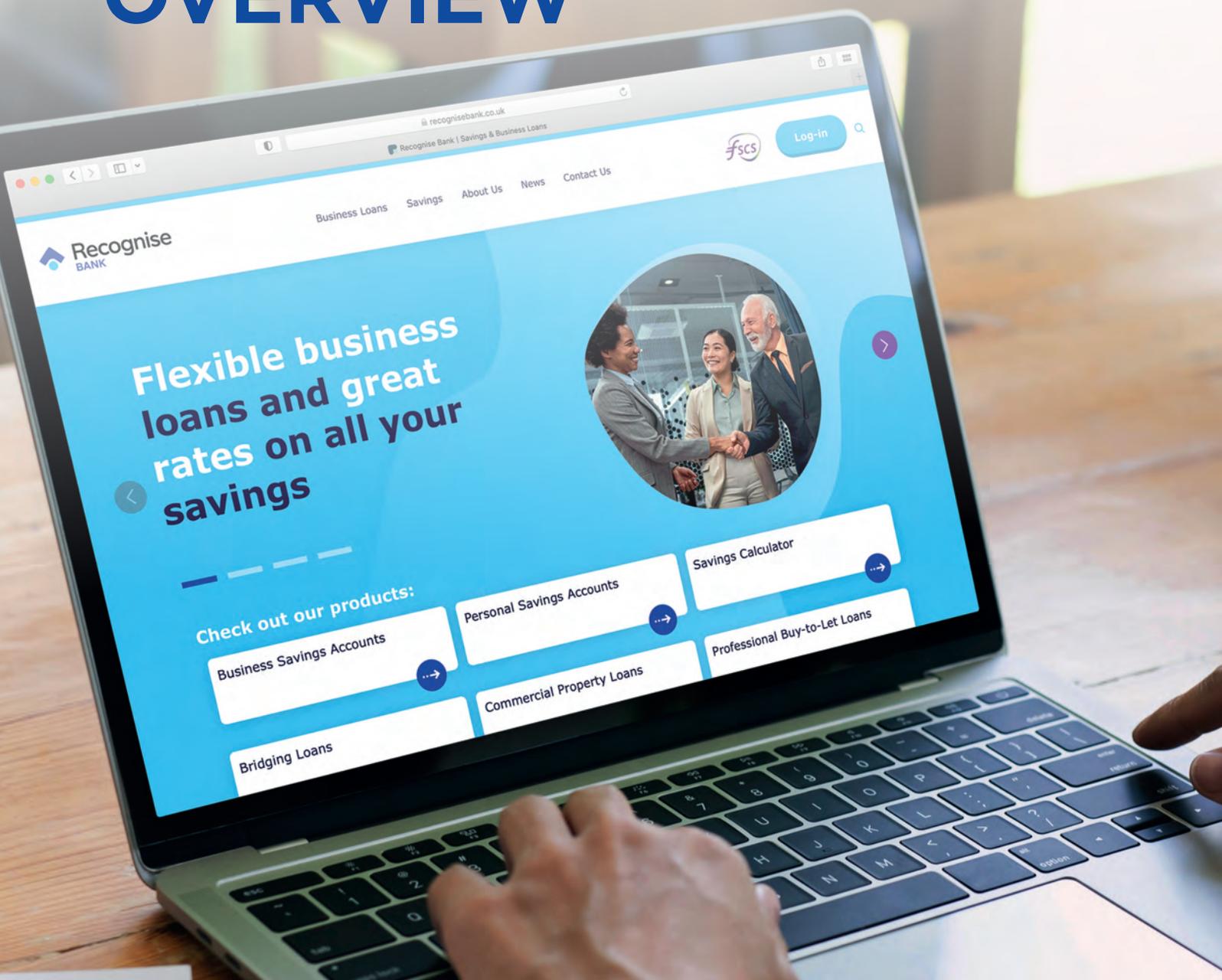
Reports

Pages 6 to 8 comprise the Chair's statement, pages 9 to 26 the Strategic report, pages 37 to 40 the Directors' Remuneration report and pages 41 to 44 the Directors' report, all of which are presented in accordance with the Companies Act 2006. 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 focuses on serving the UK SME market through Recognise Bank.

Having achieved fully authorised status in September 2021, Recognise Bank is continuing its development as a digital bank dedicated to supporting SMEs and personal savers. Its recently created Innovation Hub will help accelerate the Bank's digital capability, developing new and improved products and services to meet the needs of growing UK businesses, now and in the future.

Overview



Recognise Bank Limited (“Recognise Bank” or “the Bank”)

Recognise Bank is a UK licensed bank that is focused on serving the UK SME market. Its business has grown substantially since September 2021 when it was granted full authorisation status by the PRA, enabling it to accept savings deposits. With full operational lending capabilities already in place at that date, Recognise Bank was able to launch its first saving products almost immediately. It now offers a range of business and personal savings products, as well as lending products that are tailored to meet the needs of the SME sector.

Recognise Bank operates as a relationship-led SME lending bank with offices in London, Manchester, Birmingham and Leeds. It is supported by the latest cloud-based technologies. The Bank is building on its existing technology infrastructure through its recently set up Innovation Hub that will develop its digital capability, and enable the Bank to offer new and improved lending products and services to the SME sector.

With an experienced management team and workforce, and no legacy loan book, Recognise Bank is now well-placed to support ambitious and successful SME businesses during the challenging economic times ahead.



Credit Asset Management Limited (“CAML”) and Professions Funding Limited (“PFL”)

The existing loan, hire purchase and lease portfolios of CAML and PFL are in their run-off phase as all new lending is now undertaken by Recognise Bank. CAML was 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.

Abbreviations

AIM	Alternative Investment Market
ALCO	Asset and Liability Committee of Recognise Bank
AwR	Authorisation with Restrictions
BRC	Board Risk Committee of Recognise Bank
CCI	Credit Cycle Index
CET	Common Equity Tier
CRO	Chief Risk Officer
EAD	Exposure at Default
EBA	European Banking Authority
ECL	Expected Credit Loss
EPC	Energy Performance Certificate
ERC	Executive Risk Committee of Recognise Bank
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FIT	Forward-in-Time
GDP	Gross Domestic Product
HPI	UK House Price Index
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
KPI	Key Performance Indicator
LGD	Loss Given Default
NCSC	National Cyber Security Centre
PBTL	Professional Buy-to-Let Loan
PD	Probability of Default
PRA	Prudential Regulation Authority
RAG	Red, Amber, Green
RCSAs	Risk and Control Self-Assessments
SECR	Streamlined Energy and Carbon Reporting
SICR	Significant Increase in Credit Risk
TCR	Total Capital Requirement
TtC	Through-the-Cycle

Awards and commendations received by Recognise Bank

Recognise Bank has received a number of important awards and commendations in the past year.

Fintech Finance

Recognise Bank won the Fintech Finance 'Wow! We can build a bank!' award in 2021, the top prize in these prestigious finance technology awards. The award, jointly presented to Recognise Bank's banking platform partner, Mambu, acknowledges Recognise Bank's journey from an idea to a fully-fledged bank, using technology and personal relationships to disrupt the UK business banking sector.



SME News Finance Awards

The influential small business magazine named Recognise Bank 'Best SME Bank 2021' in its annual finance awards, noting Recognise Bank's commitment to supporting growing businesses via its network of regional hubs, providing SMEs with true personal relationships.



Moneynet Awards

Although it had only launched its personal savings accounts in September 2021, Recognise Bank was still Highly Commended in the 'Best New Savings Provider' category of the 2022 Moneynet Awards, an award judged by a panel of personal finance experts, including national journalists.



Shortlisted for mortgage awards

As evidence of the impact Recognise Bank made in its first full year of lending, it was shortlisted for 'Best Service from a Commercial Mortgage Provider' in the Business Moneyfacts Awards, and 'Best Newcomer in the Mortgage Space' at the Money Age Mortgage Awards 2022.

Recognise Bank customer stories

In the process of achieving its target of making commercial loans of £100m by 31 March 2022, Recognise Bank supported a wide variety of businesses with different lending requirements. For example:

A ground-breaking new dementia care village

Recognise Bank provided a loan of £2.9m to the Central and Regional Estates (CARE) Healthcare Team to support the purchase of a site for a new residential village for people with dementia, a completely new model for dementia care in the UK mirroring the internationally acclaimed De Hogeweyk Village in Weesp, Netherlands.

Philip Scott, a Director of CARE, said: "This is a very important project and will completely change the way people with dementia are cared for in a residential setting. This development will offer a real alternative in terms of accommodation footprint and bring a completely new model of care to the UK.

"As Recognise Bank has great knowledge of the commercial property sector and the healthcare space in particular, the decision-making process was very straightforward and, above all else, swift in terms of execution."

A green housing development

Recognise Bank provided a £2.3m bridging loan deal on an eco-housing development, enabling the borrower to refinance an existing acquisition loan in order to move on to the second phase of the overall development. The project included 19 environmentally friendly homes plus the refurbishment of an existing lodge on the site.

Jason Caprioli, Lending Director at broker, Kingswood Associates, said: "This is an exciting project and Recognise Bank was able to structure and support our client's green-centred development in Cambridgeshire. The key to success was its team, who combined experience, dynamism, speed and flexibility.

"While it was our first engagement with Recognise Bank, we can't wait to work with the bank again. Going into 2022 it's great to see a new bank able to support ever larger opportunities with its growth strategy and appetite."

Commercial deal in record timescales

The Bank completed a £2m loan for a city centre office premises in just 23 days from credit approval being given to the funds being drawn.

The speed of the transaction was testament to Recognise Bank's digitally enabled, relationship banking model, whereby expert teams work directly with brokers and clients to progress the application, with cutting-edge technology driving the back-end processes to complete the loan quickly and efficiently.

Mark Jerman, Senior Commercial Manager of broker Watts Commercial Finance, said: "Recognise was an absolute pleasure to deal with. It was a very streamlined and joined-up approach: communication was timely, accurate and relevant, and the transaction completed quickly."

Supporting business cashflow during the pandemic

During the pandemic, Tier Consult Group, a structural and geotechnical consulting engineer, was faced with a substantial six figure premium for renewing its Professional Indemnity Insurance, so it sought a loan to help fund the payment.

Despite the challenges that the pandemic was creating with cashflow across the property and construction sector, Recognise Bank felt that Tier Consult Group's debtor book was full of strong and credible businesses. Recognise Bank gave Tier Consult a loan for the full sum it needed to pay its Professional Indemnity Insurance, which was due imminently.

Recognise Bank also recommended one of its legal partners, Kuits, to create a single company guarantee for the deal, rather than individual guarantees for each of the five companies that make up the Tier Consult Group.

Chair's statement



Recognise Bank's progress and achievements to date prove the strong need for a bank like Recognise to serve the UK's small business community."

This has been a defining year for the City of London Group.

Over the last 12 months, our vision for creating a new kind of bank for the UK's 5.5 million small businesses has been realised with Recognise Bank achieving fully authorised status in September 2021.

Achieving full authorisation was pivotal for Recognise Bank which then built on this success during the rest of the year. Within a little more than six months, the Bank had successfully loaned £100m to UK SME businesses. Furthermore, having launched its first range of personal savings accounts within two days of becoming fully authorised, Recognise Bank had attracted £95m in personal savings deposits by the end of March.

These considerable achievements are in line with the Group's strategy that was set when Recognise Bank began its journey towards a banking licence over four years ago. However, the banking sector has changed significantly since then, and this year we signalled our intention to accelerate Recognise Bank's digital capability with the creation of an Innovation Hub, which will build on the Bank's existing technology infrastructure to develop new and existing products and services, and create new revenue streams.

Capital and resources within Recognise Bank have been reallocated to support the creation of the Innovation Hub. As we move forward, I am confident we continue to have the right level of expertise and experience across all areas to ensure Recognise Bank will grow and thrive.

It is also pleasing to report that simplification of Group businesses in line with our strategy progressed during the year, with the divestment of non-core businesses being completed on the sale of Milton Homes in March. With all new lending now being delivered through Recognise Bank, the run-off of the loan and lease portfolios of our pre-existing lending businesses continued during the year. Funds generated from the sale of Milton Homes and the run-off of existing loan portfolios have been reinvested in the Bank to provide capital to support business development and technology investment.

Two of our cornerstone investors, Parasol V27 Limited and Max Barney Investments Limited, demonstrated their commitment and support when they subscribed, in aggregate, £11.35m in September 2021 and invested a further £6.5m in cash in May 2022 following exercise of the warrants they received in September 2021.

Chair's statement / continued

Governance

As Group activities have focused increasingly on Recognise Bank, the Board has sought to simplify the Group's governance arrangements. The operation of the boards of the Company and Recognise Bank has been streamlined as your directors are either non-executive directors or observers on the board of Recognise Bank. I am the Chair of both companies.

At the executive level, the responsibilities of the Chief Financial Officer, Chief Risk Officer, Chief People Officer and Chief Technology Officer of Recognise Bank already extend across the Group. The Board resolved not to appoint a new Chief Executive Officer, following Michael Goldstein's resignation in March 2022. Instead, Jean Murphy, the recently appointed Chief Executive Officer of Recognise Bank, is extending her managerial responsibilities to the Company and David Jenkins, Chief Financial Officer, is providing additional managerial input as required.

AGM matters

The Board is seeking authority at the AGM to disapply pre-emption rights and allow it to issue up to 11,943,064 new shares, equivalent to approximately 10% of the capital of the Company in issue.

The Board does not recommend payment of a dividend.

Management changes

Michael Goldstein

Michael Goldstein stepped down from his role as Chief Executive Officer of the Company in March. Michael was instrumental in creating the environment in which the strategy to create a new SME bank for the UK could flourish, of course resulting in Recognise Bank.

On behalf of the Board, I want to thank Michael for his leadership and his commitment to realising the Recognise Bank vision he helped to create. We all wish him well for the future.

Jason Oakley

Jason Oakley, one of the co-founders of Recognise Bank, stepped down from his role as Chief Executive Officer of Recognise Bank in March 2022. Jason's drive helped to create Recognise Bank and ultimately enable it to achieve fully authorised status. On behalf of the Board, I would like to thank Jason for all his hard work and dedication over the last five years and wish him well for the future.

Jean Murphy

I am delighted to announce that Jean Murphy was appointed as the new Chief Executive Officer for Recognise Bank on 4 August 2022. Jean brings to the role experience of banking and capital markets, both of which are important to the Bank's future investment. Recognise Bank will also benefit from her entrepreneurial approach as she has previously built successful businesses.

Bryce Glover, who acted as Interim CEO prior to her appointment, continues as the Deputy CEO of Recognise Bank.

Environmental and sustainability matters

The Group is committed to ensuring its business promotes and supports positive environmental and sustainability goals. In our Climate change section on page 21, we summarise work already done on developing our lending risk assessment processes and on further work that is in progress.

We are conscious of our own responsibilities in this area and are in the process of setting internal targets to reduce energy consumption across the Group.

Outlook

While I remain confident of a positive future and continued growth for the Group, it is important to acknowledge we are in a period where many factors are making the future economic outlook, both in the UK and abroad, complex and difficult to predict.

The war in Ukraine has impacted the global economy, which in turn creates pressures here at home, such as rising energy costs, raw material and transport costs, alongside price increases for consumers who are facing their own financial challenges. Rising inflation and interest rates create a scenario not witnessed in the UK for many years.

The SME business sector that Recognise Bank supports remains strong and sentiment remains positive. The sector has initially recovered well from the COVID-19 pandemic, as companies take the opportunity to embrace different business practices or enter new markets. But challenges remain, both in terms of day-to-day operations and future investment plans. Lenders supporting this sector must be balanced in acknowledging the risks as well as the potential in the companies they support, and the funding deals they agree.

Chair's statement / continued

Recognise Bank's experienced management and workforce mean it will be able to navigate these challenges and continue lending. Moreover, with its detailed understanding of SMEs and their financial needs, together with its expanding digital capability and no legacy book, the Bank is well-placed to create new and innovative lending solutions for ambitious and successful companies.

I would like to put on record my appreciation of the hard work of all the team and constant support from our major shareholders and the commitment of my colleagues.

Philip Jenks
Chair

6 September 2022

STRATEGIC REPORT



Strategic report

Business activities

The Company's banking subsidiary, Recognise Bank, traded as a bank throughout the year ended 31 March 2022. After receiving a full UK banking licence in September 2021, Recognise Bank was able to accept savings deposits, and expanded its activities significantly in the second half of the year. With all new lending being made through Recognise Bank, the Group's other lending companies continued to run-off their existing portfolios, with the Property & Funding Solutions Ltd ("PFS") run-off being completed by the year end. The divestment of the Group's two non-core businesses was

completed during the year. Acorn to Oaks Financial Services Limited was sold on 1 April 2021 and the sale of Milton Homes Limited was completed on 10 March 2022 after regulatory approval for the change in control had been received. Under the Milton Homes sale agreement, all profits earned after 31 March 2021 were retained by Milton Homes for the benefit of the purchaser.

A review of each business is included on pages 12 to 14.

Financial summary

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

	2022 £'000	2021 £'000 (note(a))
Banking activities	(12,444)	(7,812)
Loan, lease and professions financing		
Asset based finance, commercial and professional loans	341	(297)
Property bridging finance	308	109
Other	(14)	(7)
Holding company	(1,836)	(2,112)
Loss before tax from continuing operations	(13,645)	(10,119)
Profit/(loss) before tax from discontinued operations ^(b)	360	(2,528)
	(13,285)	(12,647)

^(a) Prior year figures have been reclassified within the Financial summary: the results previously reported are unchanged (note 2.1 on page 55).

^(b) Includes reduction of £320,000 in impairment loss on disposal (2021: impairment loss of £6,657,000 on remeasurement of assets on transfer to disposal groups).

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

	2022 £'000	2021 £'000
Loan book at year end	101,054	17,996
Deposits with Recognise Bank at year end	94,994	2

Strategic report / Business activities / continued

The results for the year reflect the transition of the Group in line with its core strategy. The Group's commercial activities are now undertaken through Recognise Bank, which was able to expand its activities significantly in the second half of the year after receiving a full UK banking licence in September 2021. Recognise Bank lent £100m of commercial loans in the period to 31 March 2022.

Recognise Bank's loss of £12,444,000 reflects the costs incurred in developing the business over the year and is in line with the Board's expectations.

As a consequence of setting up the Innovation Hub, Recognise Bank has reallocated resources within the business over the medium term and realigned some of its activities, with a resulting reduction in headcount. As the Bank continues to pursue its business plan, we will see overall headcount increase.

The run-off of the existing loan and lease portfolios of PFS and CAML/PFL continued smoothly during the year, with both businesses reporting profits. The run-off of the PFS portfolio was completed in March 2022 with the final loan being novated to Recognise Bank. The results of CAML/PFL reflect the release of existing provisions carried under IFRS 9.

The holding company's results include AIM listing and other head office costs.

The 2021 Group results included an impairment loss of £6,543,000 on the remeasurement of assets when Milton Homes was reclassified as a business held for sale with an estimated fair value, net of disposal costs, of £8,450,000. The net amount realised on completion of the sale in March 2022 was £8,770,000 and, accordingly, the results for this year include a credit of £320,000.

Current activities

Recognise Bank is continuing to develop its business in line with its business plan and is monitoring closely the effect of both the war in Ukraine and UK economic pressures on its SME customers. The additional capital invested in Recognise Bank by COLG this year will support development, including that of the Innovation Hub, and growing the lending book.

Since the year-end, Recognise Bank has launched its Business Savings range of accounts, which has proved to be popular with SMEs. Interest rates offered to both business and personal savers remain attractive as these have been increased following increases in the Bank of England base rate. The Bank had deposits of £100m at 30 June 2022, in large part due to these two factors.

Following its establishment in March, the Innovation Hub is in the process of developing its first new products and processes for delivery and implementation in the second half of the year. To support the Innovation Hub, recruitment of expertise is in progress and new supplier relationships are being put in place.



Review of the businesses



Recognise Bank Limited (“Recognise Bank”) – Bank focused on UK SME market

(a) Business review

It was a major achievement for Recognise Bank to become a fully authorised UK bank in September 2021 within ten months of receiving Approval with Restrictions (AwR). It shows the strength and determination of Recognise Bank’s management team to deliver on its strategy within the timescales it had set, against the backdrop of a challenging economic environment.

Little more than six months after full authorisation, Recognise Bank achieved the milestone of making £100m of commercial loans and receiving £95m in savings deposits.

This was proof that Recognise Bank’s digitally enabled relationship banking model is needed by a sector still recovering from the impact of the coronavirus pandemic. While many mainstream banks continued to underserve the SME market, either focusing only on big-ticket loans for larger businesses or forcing their smaller customers to apply for funding via faceless call centres or algorithm-driven online forms, Recognise Bank built relationships with over 60 commercial finance brokers, generating over £1 billion in lending requests over the period.

These relationships give Recognise Bank an insight into the shifting needs of commercial borrowers, driving product innovation and expanding the lending proposition beyond the initial line-up of commercial property loans, working capital loans and bridging loans. In November 2021, Recognise Bank launched a Professional Buy-to-Let (PBTL) loan designed for experienced property owners and investors.

This new product was created to support the growing number of professional landlords who need a lender that understands the complex nature of property investment, as well as having the flexibility to support the acquisition and re-finance of portfolios containing different property types. As regulation in the buy-to-let sector increases, with far-reaching changes to the Government’s Energy Performance Certification (EPC) regime, and tax benefits are reduced, we believe the market will become ever more professionalised as it becomes far less appealing to smaller landlords. Property investors will need the support of experienced lenders who not only appreciate their funding needs, but also the fast-changing private rental sector, for both residential and commercial properties.

These factors are ushering in a quiet revolution in property and property finance, and the successful lenders will be those that offer their customers added-value services, as well as cost-effective lending. Anticipating this, and demonstrating its insight and innovation, Recognise Bank partnered with property-tech pioneer Rent Chief to provide buy-to-let borrowers and PBTL customers with a number of digital tools.

Available on the Recognise Bank website, these tools help property investors research the locations and types of property they are considering acquiring, providing real-time access to property prices and rental incomes, as well as forecasting rental yields and return on investment.

However, Recognise Bank is not just a lender. After receiving full approval from the Prudential Regulation Authority (PRA) and the removal of deposit restrictions in September 2021, Recognise Bank unveiled a range of personal savings accounts two days later. A number of Recognise Bank’s new products topped the best buy tables in an extremely competitive savings market.

The 95 Day Notice Account proved particularly popular with savers searching for a decent return on their money without having to lock their cash away for months or years. When the Bank of England finally increased the Base Rate in December 2021 after years of low interest rates, Recognise Bank passed the rise on in full to its variable rate savers.

This helped the Bank build a strong presence with savers, the media and commentators in a busy savings marketplace which is often notable for new entrants offering headline grabbing rates for a short period of time.

By the end of the financial year, Recognise Bank had attracted £95m in personal savings deposits. Recognise Bank’s focus on savings products continued with the introduction of a range of Business Savings products in early April 2022. At a time when many big banks were paying their business savings customers as little as 0.01% AER, Recognise Bank offered SMEs better value, competitive rates and straightforward management of their business savings accounts.

Recognise Bank’s lending success is a testament to its technology infrastructure, combining the very best of cutting edge fintech partners like Mambu and nCino. This enables Recognise Bank to be flexible, developing new services and quickly responding to the changing needs of SME customers.

Strategic report / Review of the businesses / continued

Building on this capability, Recognise Bank announced in March the creation of what has been initially dubbed the “Innovation Hub” or the “Hub” – a new environment designed to accelerate the Bank’s digital capability and drive innovation. The Hub will help develop new and improved products and services for new and existing customers, as well as helping to deliver cost efficiencies. Importantly, the Hub will operate as a technology “greenhouse” to research and develop brand new revenue streams for Recognise Bank.

Overseen by Recognise Bank’s Chief Technology Officer (CTO), the Hub will be home to Recognise Bank’s own technologists, as well as having strategic partnerships with accelerators and start-ups and with leading tech consultancies and development firms. Recruitment is well underway, bringing new talent and creative thinking to the Bank.

The last 12 months also saw the handing over of the baton of a driving force in the Recognise Bank journey so far. After nearly five years at the helm, co-founder Jason Oakley stepped down as CEO in March 2022, having successfully led Recognise Bank to full authorisation status. His fellow co-founder and Deputy CEO, Bryce Glover, acted as Interim CEO until Jean Murphy was appointed as the new CEO on 4 August 2022.

(b) Financial review

£'000	2022	2021
Total operating income	1,240	44
Loss before tax	(12,444)	(7,812)

The loss, which is in line with the Board’s expectations, reflects the expansion in Recognise Bank’s level of activities over the year. The executive team continues to monitor costs and the timing of expenditure carefully, as it has done throughout this journey.

A further £22.95m was invested by COLG in Recognise Bank during the year to facilitate Recognise Bank’s development by increasing its capital base to support lending activities. Having met the technical conditions set by the PRA to exit mobilisation in June 2021, full authorisation as a bank was granted in September 2021 after capital adequacy conditions had been met. As explained in the business review, Recognise Bank took advantage of the opportunities this afforded to the business and, by 31 March 2022, it had made £100m of commercial loans and customer deposits had reached £95m.

Recognise Bank is continuing to work to develop its business in line with its strategy and business plan, having a regional presence in the North West, Yorkshire, the Midlands and the South. It does not have the potential problems associated with a legacy loan book and hence can concentrate on meeting the needs of its SME customers and building a quality loan portfolio.

Other lending businesses – in run-off**(a) Business review**

Prior to the decision by the Board in March 2020 to place all new lending through Recognise Bank, PFS provided short-term property bridging and development finance to commercial customers. CAML was a business to business provider of debt finance to UK SMEs, providing asset backed finance and commercial loans to SMEs and, through PFL, loans to professional practice firms.

Both businesses began the run-off of their existing loan portfolios at the start of the pandemic in March 2020 which has continued in line with expectations from that date. The run-off of the PFS loan portfolio was completed during the year while the weighted average period to maturity of the CAML and PFL portfolios was eighteen months at the year-end. A review of the financial performance of each business in the year is given below.

(b) Financial reviews**Credit Asset Management Limited (“CAML”) and Professions Funding Limited (“PFL”)**

£'000	2022	2021
Total operating income	282	745
Profit/ (loss) before tax	341	(297)

CAML and PFL made a profit before tax of £341k (2021: loss of £297k). Total operating income has reduced significantly as the run-off of the loan and lease portfolios continues.

Although the effects of COVID-19 and repeated lockdown restrictions on the UK economy were more prolonged and severe than initially expected, the resilience of the CAML and PFL loan and lease portfolios is such that it was possible to release provisions of £454k during the year while retaining provisions that allow for possible increases in future defaults due to pressures on SMEs arising from the war in Ukraine, as well as from the COVID-19 pandemic.

Strategic report / Review of the businesses / continued

CAML and PFL maintained scheduled repayments on block funding facilities during the year. The size of the portfolio (the current net investment in the loans/ leases provided to customers) decreased from £6.1m to £2.3m over the year.

Property & Funding Solutions Ltd (“PFS”)

£'000	2022	2021
Total operating income	316	700
Profit before tax	308	109

PFS, which had a loan book of £5.74m at 31 March 2021, completed the run-off of its portfolio during the year. It is no longer trading and will be dissolved in due course.

COLG

During the year, COLG invested a further £22.95m in Recognise Bank to support its ongoing development. Some 50% of the funds came from shareholders in the September 2021 fundraising while the balance was generated from the sale of Milton Homes and the CAML and PFL loan portfolios as they matured.

The fundraising in September 2021 raised £12.6m before expenses with 20.93m shares being issued. Shareholders subscribing for the new shares also received warrants on the basis of one warrant for every two shares subscribed for: warrant holders are entitled to subscribe for ordinary shares at 69p each within three years from their date of issue.

The Group has divested itself of its two non-core businesses following the sales of Acorn to Oaks Financial Services Limited and Milton Homes Limited. The former was sold on 1 April 2021 while the sale of the latter, announced on 3 September 2021, was completed on 10 March 2022 after the FCA had approved the change in control. Under the sale agreement for Milton Homes Limited, profits arising after 31 March 2021 were retained in Milton Homes for the benefit of the purchaser. The Company received cash of £9.0m in September 2021 on repayment of the Milton Homes Deep Discount Bonds and £0.25m on completion for the shares.

Following the Group’s move to new offices in June 2022 and the expiry of the lease of the Company’s office at The Royal Exchange, COLG will no longer provide shared property services to group companies as the new lease is held by Recognise Bank.



Risk management

Risk management governance

The Board has overall responsibility for ensuring the Group operates in a safe and sound manner and for establishing an organisational structure to discharge this duty.

The Company's Audit and Risk Committee is responsible for the oversight of both Group risk management and the Group's internal control environment. The Group's business activities are now primarily conducted through Recognise Bank and the Audit and Risk Committee relies increasingly on the oversight of committees established by the Recognise Bank board.

The Board reviews and assesses the principal and emerging risks in the Group annually. In addition to matters reported by the Company's Audit and Risk Committee, the Chief Risk Officer of Recognise Bank (CRO) provides input to the Board.

The oversight relied upon by the Audit and Risk Committee is provided through the following committees established by the Recognise Bank board that contribute to various aspects of risk management:

Forum	Responsibilities
Recognise Board Risk Committee	Responsible for oversight of the risk management framework of Recognise Bank, including reviewing and approving risk appetite statements, stress and scenario testing, key policies, principal risks and mitigants, the Annual Compliance Plan, overseeing exceptions reporting and approving management action plans.
Recognise Board Audit Committee	Responsible for oversight of the internal control environment of Recognise Bank, including culture, risk awareness, and the effectiveness of internal controls. It oversees the Internal Audit function, reviewing and approving the annual internal audit plan and receiving the internal audit report, and the Whistleblowing Policy.
Recognise Executive Risk Committee	The Executive Risk Committee supports the Board Risk Committee by reviewing key documents relating to the risk management framework of Recognise Bank, and risks other than those covered at the Asset and Liability Committee and Credit Committee.
Recognise Board Asset and Liability Committee	The Asset and Liability Committee ("ALCO") is responsible for oversight of Recognise Bank's funding and liquidity risks and for interest rate risk. It provides reports to the Recognise Board Risk Committee.
Recognise Credit Committee	The Credit Committee is responsible for oversight of the credit risk profile of Recognise Bank, including responsible lending, stress testing of the books, monitoring the credit risk profile, credit concentration and monitoring arrears and defaulted loans.
Recognise Model Risk Committee	The Model Risk Committee is responsible for oversight of the use of and reliance on models in Recognise Bank.

As a fully authorised UK bank, Recognise Bank has developed a strong risk management function to address the operational and other risks it faces. The Board endorses the risk management strategy of Recognise Bank which is set out below and, to the extent it is applicable, has adopted it for the Company and other group companies.

Risk culture

Recognise Bank understands the need for an open and clear risk management approach and the risk culture in Recognise Bank is designed to facilitate:

- strong risk awareness across the organisation;
- reward structure that aligns with risk appetite and reinforces the risk management culture;
- risk-aware decision-making in line with strategic goals;
- clarity in roles and responsibilities within the three lines of defence; and
- risks being identified, quantified, managed and reported in a timely fashion.

All employees are provided with training during their induction and have ongoing refresher training.

Strategic report / Risk management / continued

Risk appetite

The Risk Appetite Statement, which is approved by the Recognise Bank board, is reviewed regularly.

Risk Appetite Statements include qualitative and quantitative measures of risk, and the position against risk appetites is reported monthly to the Recognise Bank Board.

The Risk Appetite Statement cover the risks included in the Principal Risks identified in the table below.

Enterprise risk management

All business areas maintain risk and control self-assessments (“RCSAs”) within an enterprise risk management system, which records the risks and controls. RCSAs are subject to approval by members of the Recognise Bank Executive Committee (“Executives”) and are subject to re-certification and approval at regular intervals, which are set depending on the risk.

Material risks based on these RCSAs are reported to the Executive Risk Committee (“ERC”) monthly, and to the Board Risk Committee (“BRC”) on an exceptions basis (ie those risks which are outside risk appetite).

Emerging risks

All colleagues, particularly Executives, are tasked with identifying emerging risks and ensuring these are adequately captured in the enterprise risk management system.

Recognise Bank maintains a risk radar, which includes emerging risks identified from regulatory publications and industry publications.

Scenario testing

Recognise Bank runs an annual programme of adverse scenarios, such as a cyber attack, to test the adequacy of controls and incident management plans. The results are reported to the ERC and are summarised for the BRC.

Risk strategy

Recognise Bank operates an annual reassessment of the risk management framework, in which it considers the risk management capability that it aims to have in place to support the business in the next 12 to 18 months, and sets out any actions required to improve and develop the risk management framework.

The Risk strategy is subject to approval by the BRC, and progress against the actions in the Risk strategy is provided to each ERC and BRC meeting.

Three lines of defence

Recognise Bank operates three lines of defence.

The first line of defence accepts, manages, and declines risks; owns the risks, and implements controls and/or other methods to mitigate the risk, as required; and operates within the Recognise Bank board approved risk appetite statements and supporting limits.

The second line of defence (Risk team) supports the Recognise Bank board in establishing and maintaining the risk management framework; provides independent challenge to the business; provides assurance through a risk and compliance monitoring and testing plan; provides independent reporting to the Board against risk appetite; and reports to the Board Risk Committee.

The third line of defence (internal audit) reviews the internal control environment, including culture and governance, and reports to the Audit Committee.

Strategic report / Risk management / continued

Risk function

The Risk function, led by the CRO, is responsible for oversight of risks in the Group and this is achieved by:

- providing support and advice to the first line of defence;
- establishing the risk framework;
- monitoring the performance of the business against those risks; and
- reviewing action plans where risk appetite is, or is at risk of, being exceeded.

All colleagues

All colleagues have a responsibility for risk identification and management. This includes the identification and assessment of risks, working openly and cooperatively with the second and third lines of defence, and addressing recommendations or findings on a timely basis.

Each business area is responsible for maintaining clear processes, and managers are responsible for ensuring that their staff have the appropriate skills and/or experience and training for their roles.

Principal risks and uncertainties

The objective of the Recognise Bank board is to set policies to manage and mitigate risk within acceptable levels whilst maintaining Recognise Bank's ability to achieve its strategic objectives. The principal risks set out below include those that apply to the Group as a whole as well as those specific to Recognise Bank.

Risk Description	Key Mitigants and Controls	Commentary
Strategic - The risk that either the business model is unviable, or that the strategy will not be implemented successfully - with the outcome that Recognise Bank and the Group do not achieve their strategic aims.	Regular reforecasting which takes into account forecast economic circumstances, the actual outcomes to date compared to our assumptions and which is subject to Board approval.	The absence of a material legacy book pre-pandemic reduced this risk such that Recognise Bank was able to lend in the recovery. We are closely monitoring forecasts in the light of the Russian invasion of Ukraine and the inflationary environment in the UK.
Capital - The Group has (or will have) insufficient capital to address risks to which it is exposed - with the impact that Recognise Bank may have to implement its Recovery Plan and/or Solvent Wind Down Plan.	Regular reporting of the actual and forecast capital positions of Recognise Bank, including actual and forecast positions against capital risk appetite. Recognise Bank has a Capital Contingency Plan that sets out the management of capital under business as usual, when the capital risk is increased, and if we are outside our capital risk appetite. It is reviewed and approved by the Recognise Bank board annually.	As Recognise Bank is not yet profitable, capital risk is a key risk for the Group. We regularly review the position. We seek to raise capital in advance of requiring it.
Liquidity - The Group has (or will have) insufficient liquidity to address liquidity risks to which it is exposed - with the impact that Recognise Bank must implement its Recovery Plan.	Regular monitoring and reporting of actual and forecast liquidity positions, including the actual and forecast positions against liquidity risk appetite. Recognise Bank has a Liquidity Contingency Plan that sets out the management of liquidity under business as usual, when the risk is increased, and if we are outside liquidity risk appetite. It is reviewed and approved by the Recognise Bank board annually.	We entered the savings market and were successful in both 5 year bonds and 95 day notice accounts. As a result, our funding risk is low and our liquidity position stronger than we would otherwise have expected.

Strategic report / Risk management / continued

Risk Description	Key Mitigants and Controls	Commentary
<p>Credit - Risk that borrowers do not meet their obligations to a degree greater than anticipated – with the impact that current or future credit losses are greater than anticipated.</p> <p>Risk that a cohort of borrowers is adversely impacted by a stress to a geographical area/sector such that losses are greater than anticipated – with the impact that current or future credit losses are greater than anticipated.</p>	<p>Loans are subject to detailed underwriting that takes into account affordability, borrower experience, and the ability to maintain repayments under stress.</p> <p>Lending and loan book quality is reported regularly and is subject to quarterly second line reviews that are reported to the Board Risk Committee.</p> <p>Lending is subject to stress testing using parameters that are at least as severe as the Bank of England annual scenario.</p>	<p>The loan book to date has been originated at a higher quality than expected.</p> <p>The lending has a higher than expected proportion of loans assessed as strong, and a lower average LTV.</p>
<p>Third Party Risk - The risk that the failure of a third party to perform impacts adversely on the Group with the consequence that the Group is unable to meet its obligations, there is customer harm, or the Group suffers material loss.</p>	<p>Recognise Bank operates a Third Party Policy that is subject to annual review and approval by the Board Risk Committee.</p> <p>Third parties are subject to assessment as Critical, Important or Other at inception. Depending on their classification they are subject to enhanced due diligence. The due diligence is repeated regularly: at least annually for Critical and Important third parties, and more regularly if the assessment deems that appropriate.</p>	<p>The Third Party process is operating as expected and our Critical and Important third parties are within risk appetite.</p>
<p>Operational Resilience - The risk that the Group is subject to a disruptive event that results in material cost and/or significant customer harm.</p> <p>The risk comprises the risk of a disruptive event occurring, and the risk that the Group is unable to recover from it.</p>	<p>Recognise Bank operates an Operational Resilience Policy that is subject to annual review and approval by the Recognise Bank board.</p> <p>Recognise Bank stress tests a severe but plausible scenario and tests its ability to remain within Recognise Bank board approved Impact Tolerances.</p> <p>Recognise Bank performs an annual self-assessment of Operational Resilience, reporting to the Recognise Bank board.</p> <p>Recognise Bank monitors a range of operational resilience indicators and reports to the Recognise Bank board monthly.</p>	<p>We concluded positively on operational resilience.</p> <p>We will continue to monitor and test operational resilience.</p>
<p>Data - The risk that the Group is in breach of data protection regulations.</p>	<p>We have a Data Privacy Policy that is subject to annual review and approval by the Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.</p> <p>There is an annual review by the Data Protection Officer reporting to the Board Risk Committee.</p>	<p>The last report was made after the year end and concluded positively.</p>

Strategic report / Risk management / continued

Risk Description	Key Mitigants and Controls	Commentary
<p>Cyber - The risk that the Group is subject to a successful cyber attack.</p>	<p>We have a number of policies, including the Information Security Policy, that are subject to annual review and approval. We have processes and procedures which are designed and implemented so as to achieve compliance with those policies.</p> <p>We undertake regular exercises to ensure our incident management response is fit for purpose. The outcome of these exercises is reported to the Board.</p>	<p>The risk of a cyber attack has increased: the NCSC has issued warnings in this regard.</p> <p>In response, we have enhanced our review of their advice and compared it to our current stance.</p>
<p>Operational - The risk that a failed or inadequate process or human error results in a material loss or to customer harm.</p>	<p>Recognise Bank operates risk and control self-assessments (“RCSAs”) which are approved by Executives. The second line undertakes a programme of challenges to calibrate the RCSAs and ensure they are fit for purpose.</p> <p>All risks with a net score above a certain level are reported to the Executive Risk Committee and Board Risk Committee, together with any remediation plan.</p>	<p>We have identified a number of risks that are closely monitored. None are outside risk appetite.</p>
<p>Conduct - The risk that Recognise Bank causes harm to some or all of its customers. This includes the failure to treat customers fairly, or to identify and respond appropriately to customers in vulnerable circumstances.</p>	<p>Recognise Bank has a Conduct Risk Policy that is subject to annual review and approval by the Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.</p> <p>A Conduct Risk dashboard is reported to the Executive Risk Committee monthly, and to the Board Risk Committee on an exception basis.</p>	<p>Our reporting indicates that we are operating within conduct risk appetite.</p>
<p>Compliance - The risk that the Group does not comply with its regulatory and legal obligations.</p> <p>Included in compliance risk is the risk that the Group does not comply with AIM listing rules.</p>	<p>Recognise Bank has a Compliance Risk Policy that is subject to annual review and approval by the Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.</p> <p>A Compliance Monitoring Plan is reviewed and approved by the Board Risk Committee, with progress against it and the outcomes of the reviews also being reported to the Board Risk Committee.</p> <p>The Group has policies, including the Share Dealing Policy, to ensure the AIM listing rules are met, and processes and procedures to monitor compliance with those policies.</p>	<p>Compliance Monitoring has operated to plan.</p> <p>There have been no material breaches of AIM listing rules.</p>

Strategic report / Risk management / continued

Risk Description	Key Mitigants and Controls	Commentary
<p>Financial Crime - The risk that group companies are used to undertake and/or launder the proceeds of financial crime or to facilitate the financing of terrorism.</p>	<p>We have an Anti-Money Laundering and Counter Terrorist Financing Policy (“AML and CTF Policy”) that is subject to annual review and approval by the Board Risk Committee. We have processes and procedures which are designed and implemented so as to achieve compliance with that policy.</p> <p>There is an annual review by the Money Laundering Reporting Officer (“MLRO”) reporting to the Board Risk Committee.</p> <p>The MLRO reviews compliance with the AML and CTF Policy on a sample of loans monthly, reporting to the Executive Risk Committee.</p>	<p>Monitoring has indicated that we are operating within our policy and financial crime risk appetite.</p>
<p>Interest Rate Risk - The risk that a change in market interest rates results in a material loss in value to the Group.</p>	<p>Recognise Bank measures and reports the interest rate risk to a 200 basis points parallel shift on a static book basis and the risk to net interest income of a change in interest rates, reporting to ALCO monthly.</p> <p>Recognise Bank also measures the exposure to the standardised interest rate shocks, reporting to ALCO monthly.</p>	<p>We have, through the period, operated within the IRRBB risk appetite.</p>
<p>Climate Risk - The risk that loan assets are adversely impacted by climate change (eg flooding).</p> <p>The risk that loan assets are adversely impacted by the transition to a low carbon economy.</p>	<p>Climate Risk impact of loans made by Recognise Bank is assessed individually during the loan underwriting process.</p> <p>Recognise Bank measures and reports the loan book by EPC rating and flood risk.</p>	<p>Our work on climate change is evolving.</p> <p>We are seeking to assess lending to SMEs on a RAG basis for climate, and set limits for lending that is other than green in this regard.</p> <p>We plan to implement climate risk stress testing on our loan book.</p>
<p>Regulatory Reporting - The risk that the Group fails to submit a report, does not report on time, or submits inaccurate regulatory reports.</p>	<p>Recognise Bank has a Regulatory Reporting Policy that is subject to review and approval by ALCO.</p> <p>All regulatory returns are subject to review and approval before submission, including reconciliation to management accounts and rationalisation of the movement in key indices.</p>	<p>We have met the regulatory reporting deadlines.</p> <p>We monitor re-submissions and this is within risk appetite.</p>

Climate change

The Group has an Environmental and Sustainability Policy which sets out its approach to environmental, social and governance (“ESG Policy”) and sustainability matters impacting its business as well as how the Group impacts the wider environment and communities in which it operates. The Group has not undertaken any public advocacy on climate change matters.

Recognise Bank has set up a Responsible Business Group to assist with the development of a plan in relation to climate-related financial risk.

Climate-related financial risks and the actions taken to mitigate them are included in the risk management framework, as shown on page 20.

In relation to climate-related financial risks:

- the Board is responsible for ensuring that the Group has in place an appropriate risk and control environment for climate related financial risks;
- the Board has delegated oversight for climate-related financial risks to the Recognise Bank Board Risk Committee (“BRC”), and this is included in the terms of reference for the BRC;
- a climate-related risk appetite statement has been developed and has been approved by the Recognise Board;
- climate-related financial risks are covered in the Group’s ESG Policy;
- processes and procedures are in place or in course of development in specific areas to implement the ESG Policy; and
- responsibility for the oversight of climate-related financial risks has been assigned to the CRO and is included in both his Statement of Responsibility and the Responsibility Map.

The principal climate-related risks that impact the Group are:

- Physical risk – the risk to assets (including assets which are collateral for loans made by Recognise Bank) as a result of climate change, including the impact of more extreme weather events that may result in, for example, flooding.
- Transition risk – the risk to borrowers’ ability to meet their obligations as they fall due arising from the impact of the transition to a low carbon economy.

Lending risk management disclosures

Climate change risks are considered as part of the lending decision process. The factors considered include:

- the energy efficiency of a property; and
- the flood risk to the property (for lending on properties).

Recognise Bank lends only on properties in England and Wales. No loans are made on properties connected with or to businesses involved with tobacco, fossil fuels, hazardous chemicals, or mining. Forestry and logging is a permitted activity where it follows sustainable practices.

Transition risk is considered as part of the underwriting assessment process when lending to SMEs. Recognise Bank is in the process of developing categories of “green” (climate positive/ neutral and/or resilient to transition risk) and “brown” (climate negative and/or not resilient to transition risk). These have not yet been fully developed and implemented. We anticipate integrating these into the assessment process within the next five months.

The following tables show the EPC and flood risk ratings for properties which were collateral for loans made by Recognise Bank as at 31 March 2022.

EPC Rating	% of properties
A to C	23
D to E	61
Below E ^(a)	3
No ratings ^(b)	13

(a) This relates to a property the energy performance of which is being improved.

(b) This includes properties with exemptions or where there is no building on the property.

Flood Risk	% of properties
Very low	29
Low	51
Medium	13
High	7

To mitigate flood risk, properties, including all properties in high risk flood areas, are required to have adequate flood defence measures.

Strategic report / Climate change / continued

Energy consumption and GHG emissions

Energy consumption ('000) (kWh)	2022	2021
Electricity used in Head Office	60.3	50.2

Energy consumption increased at the Head Office during 2022 as a result of the post-pandemic return to working in the office.

Since the year-end, the Group has moved to a smaller office in London. The energy consumption of the Group is expected to fall and we intend to set targets to reduce energy consumption during the current year.

Recognise Bank has offices in Leeds, Manchester and Birmingham, all of which are serviced offices where we do not have responsibility for energy costs. Our landlord, the Bruntwood Group, makes a statement about sustainability on its website (www.bruntwood.co.uk/sustainability).

The Group does not operate a company car scheme, nor does it fund fuel for cars. Staff who undertake work-related travel are able to claim expenses. During the year to 31 March 2022, the Group has met expenses claims for 15,200 miles of work-related travel. This excludes journeys by train or air, where there was no incremental use of fuel.

The Company is out of scope of Streamlined Energy and Carbon Reporting ("SECR") as it does not meet the numerical thresholds in relation to turnover and number of employees.

Going concern

The directors' assessment of going concern has included a detailed review of the base case and stressed Group cash flow forecasts for 12 months following the signing of these accounts to August 2023.

In making their going concern assessment 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;
- uncertainties in the UK economic outlook and actions the Group could take to mitigate the impact on Recognise Bank;
- the raising of capital by the Company to support the growth of Recognise Bank in serving the SME market: and
- stress scenarios which included not raising further capital and incurring greater losses from loan defaults during the period of 12 months from the signing of the accounts.

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

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. The Group prepares annual budgets that include budgeted cash forecasts and funding requirements which have been reviewed by the Board and form part of the submission made by Recognise Bank to the PRA.

COLG

The Company will have sufficient working capital to meet its requirements for a period of at least 12 months following the signing of these accounts and as at the end of August 2023 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 to expand activities in line with its business plan.

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

Recognise Bank

After receiving its Authorisation with Restrictions (AwR) in November 2020, Recognise Bank became fully authorised in September 2021 and was able to accept savings deposits.

The Company invested an additional £22.9m in Recognise Bank during the year, which included £10.4m from existing shareholders and £8.6m arising from the sale of Milton Homes. A further investment of £6.5m since the year end will enable Recognise Bank to meet its regulatory capital and liquidity adequacy requirements for a period of at least twelve months following the signing of these accounts in August 2022.

CAML

The run-off of the loan and lease portfolios of CAML is continuing as existing loan and lease agreements move towards maturity, generating substantial operational cash flows, some of which have been reinvested in Recognise Bank. CAML met scheduled repayments on its two block funding loans during the year and, since the year end, has repaid one loan. CAML's management believe this positive cash inflow will continue over the period to 31 August 2023 and will exceed the amount required to meet CAML's payment obligations.

Risk factor

The main risk factor around the cash flow forecast is 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 Group's subsidiary, Recognise Bank, received a full banking licence in September 2021 after meeting all regulatory mobilisation conditions set by the PRA. As further described in the Business review on pages 12 and 13, Recognise Bank expanded its business significantly over the following six months to 31 March 2022, raising £95m in savings products and lending £100m to SME businesses in the period. These achievements show Recognise Bank's success in delivering the Group strategy to serve the UK SME market.

The directors have endorsed a five-year business plan which shows how the Group will serve the UK SME market through Recognise Bank and demonstrates the viability of the Group up to March 2027. 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 the Group, 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 business plan at Recognise Bank and consolidated level; and
- the Group's forecast cash flows, liquidity and funding profile over the period.

Recognise Bank has a highly experienced management team and with a digitally enabled, relationship-led approach, is very well placed to support the UK SME business sector. To meet challenges from the uncertain future economic environment, the Group is accelerating Recognise Bank's digital capability with the creation of its Innovation Hub, which will build on Recognise Bank's existing technology infrastructure to support its growth plan. With the quality of the management team and the scalability of technology, the Board believes there will be more opportunities to support and potentially accelerate growth expectations over the next few years.

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.

With Recognise Bank having achieved fully authorised status in September 2021, the Group's continuing strategy is for Recognise Bank to develop its business as a digitally enabled, relationship-led bank serving the UK SME market. Having regard to ongoing changes in the banking sector, the Board decided to accelerate Recognise Bank's digital capability by reallocating capital and resources and setting up an Innovation Hub within Recognise Bank. The Innovation Hub will build on Recognise Bank's existing technology infrastructure to develop new and existing products and services and create new revenue streams and enhanced customer satisfaction. Recognise Bank will then be well-placed to deliver the growth anticipated in its business plan, so benefitting stakeholders.

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.

The benefits derived from the inclusive culture the Board seeks to foster across the Group were seen when Recognise Bank achieved full authorisation as a bank in September 2021, only ten months after the PRA had granted AwR in November 2020. This achievement is a tribute to the efforts of staff and executives, who worked together to satisfy the stringent conditions set by the PRA.

With the delivery of this important element of the Group strategy, the focus has moved to implementing

the next phase of the Group strategy by facilitating the growth of Recognise Bank in line with its business plan.

Recognise Bank will develop its business in such a way that it maintains the Group's reputation for fairness and high standards of business conduct and, as at present, it will operate as a digitally enabled relationship-led SME 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 12 to 14.

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 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 in the UK Corporate Governance Code 2018 to engage with its employees. Employee engagement continues to be undertaken by business heads in each Group company, with any issues being escalated to the Board. The Board will continue to keep this under review 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 32.

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

Shareholders

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

The Board maintains an open dialogue with its three major shareholders. Three directors holding office during the year were appointed under agreements in place with two major shareholders, while an observer to the Board was appointed by the third. Through the Chair and Group executives, the Board has also maintained a dialogue with existing and potential shareholders throughout the year in the context of

Strategic report / Section 172 statement / continued

increasing the Group's future capital base to enable the long-term development of Recognise Bank.

The Company issued subscription warrants to shareholders who subscribed for shares in September 2021 on the basis of one warrant for every two shares subscribed. These entitle shareholders to subscribe for additional shares in the Company at 69p each over the three-year period up to October 2024.

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 support Recognise Bank in its dealings with both of its regulators, the PRA and FCA, before and after it was granted full authorisation in September 2021. Both the Board and Recognise Bank seek to maintain an open and active dialogue with the regulators: this is a fundamental premise underlying Recognise Bank's Regulatory Reporting Policy.

Recognise Bank operates under the Senior Managers and Certification Regime.

Customers

The Group can operate successfully only if it provides a consistently high level of service to its customers

The Board endorses Recognise Bank's commitment to providing a customer-focused service to the SME market through its relationship-led business model, which enables it to respond more easily to customers' requirements. The four customer stories on page 5 show how Recognise Bank was able to respond to and support businesses with differing requirements. The recent setting up of the Innovation Hub continues its ongoing commitment to enhance and extend services provided to both savers and borrowers.

Employees

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

The Board believes in creating an open culture where all colleagues can thrive, feel supported and valued, and are able to develop and grow their careers. Recognise Bank receives regular feedback on employee engagement through a bespoke platform which allows management to respond promptly to any issues as they arise. Recognise Bank's Recruitment Strategy and Emerging Talent Programme act as the catalyst

for positive cultural change by developing and strengthening our internal talent pipeline.

Our Responsible Business Group proactively reports on all aspects of our Diversity and Inclusion strategy as well as the specific targets that we set for the Environment and Corporate Social Responsibility. This year the Board approved a new strategy for Diversity and Inclusion which clearly sets out our approach as well as a number of challenging key targets that we are seeking to achieve. This year the Group also joined the Women in Banking & Finance network.

The Group has adopted a balanced hybrid working model which enables employees to work part of the time from home each week.

Environment

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

The Group has an Environment and Sustainability Policy that it applies within its business. As stated in the section on Climate change on page 21, Recognise Bank further developed its lending risk assessment processes in relation to climate-related financial risk during the year and is in the process of extending these to allow for Transition risk.

The Group intends to set targets to reduce its own energy consumption during the year and continues 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

Philip Jenks
Chair

6 September 2022

GOVERNANCE



Board of Directors



Philip Jenks

Independent Non-executive Chair

Appointment

15 February 2021

Responsibilities & Experience

Philip has a long and successful career in banking, including as a Non-executive Director for Leeds Building Society between 2011 and 2020. He was an Independent Non-executive Director and then Chair at Chartercourt FS Group during its successful banking licence application. In 2015 Philip was involved in the launch of Charter Savings, followed by its successful IPO in 2017. In 2020 he became Chair of Auden Group Ltd, a 'for profit' Social Enterprise intent on changing the face of UK consumer finance.

In addition to being Chair of City of London Group plc, Philip chairs the Nomination Committee and is a member of the Remuneration Committee. He is also Chair of Recognise Bank Limited.



Nyreen Bossano-Llamas

Non-independent Non-executive Director

Appointment

9 October 2020

Responsibilities & Experience

Nyreen was formerly a partner at Hassans International Law Firm and has advised on many aspects of corporate, commercial and private client work. Nyreen was part of the leadership team of a gaming company and led the development and launch of its regulated business, being directly responsible for corporate development, business development, public policy and strategy. She is an honours graduate in English and Spanish Law from the University of Kent, England, and also studied at the Universidad Complutense de Madrid, Spain. She was called to the Bar of England and Wales and Gibraltar and is a Trust and Estates Practitioner (STEP).

Nyreen is currently a senior advisor in RG Advisors Limited and is a trustee of various charities, including The Gibraltar National Theatre Foundation. She is also an independent non-executive director of Trusted Novus Bank in Gibraltar.

Board of Directors / continued



Moorad Choudhry

Independent Non-executive Director

Appointment

15 February 2021

Responsibilities & Experience

Moorad was latterly Treasurer, Corporate Banking Division at The Royal Bank of Scotland, and is Honorary Professor at University of Kent Business School. During a 30-year career in the City of London, Moorad's positions included Head of Treasury at KBC Financial Products, Vice President in structured finance services at JPMorgan Chase and government bond primary dealer at ABN Amro Hoare Govett Limited.

Moorad is a Fellow of the Chartered Institute for Securities and Investment, and a Freeman of the Worshipful Company of International Bankers. He is author of 'The Principles of Banking' (John Wiley & Sons 2012).

Moorad is a member of the Audit and Risk Committee and the Remuneration Committee. He is also a non-executive director of Recognise Bank Limited.



Richard Gabbertas

Independent Non-executive Director

Appointment

15 February 2021

Responsibilities & Experience

Richard studied economics and law before qualifying as a chartered accountant and joining KPMG in 1980, becoming a partner in 1995. He spent 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, from established FTSE 100 banks and building societies to new entrants. He has extensive knowledge of financial services and a deep understanding of banking regulation. Richard is Chairman of the Audit Committee at Arbuthnot Latham.

Richard is Chair of the Audit and Risk Committee and is also a non-executive director of Recognise Bank Limited.

Board of Directors / continued



Louise McCarthy

Independent Non-executive Director

Appointment

15 February 2021

Responsibilities & Experience

Louise is a highly qualified CIO and business change leader with over 35 years experience in large private and public sector organisations, embracing complex technology and digital transformation strategies. In recent years Louise has been IT Transformational/Change Director at HM Revenue & Customs, followed by contractor roles as Transformational Director/CIO at Aviva and Specsavers, then CIO Digital Transformation at the European Bank for Reconstruction and Development. Latterly she was contracted to HSBC as COO, Global Group Digital Transformation. Louise was a '2017 CIO Women in IT' finalist, Nominated Leading UK Female CIO in 2016 and 2017, and is a speaker on Digital Transformation.

Louise is a fellow of the Association of Chartered Certified Accountants.

Louise is Chair of the Remuneration Committee and a member of the Audit and Risk Committee. She is also a non-executive director of Recognise Bank Limited.



Paul Milner

Non-independent Non-executive Director

Appointment

29 November 2013

Responsibilities & Experience

Paul qualified as a solicitor in 1986 but left private practice soon after and 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 2013 he worked in a large student accommodation business where he was involved with new developments and a large bond refinancing a portfolio of projects.

Since 2013 he has been Chief Executive of a privately owned group of property companies and has been involved in property investments and development work, property and corporate finance, corporate restructuring, and both secured and unsecured lending.

He was chairman of City of London Group plc from 2015 to 2017 and was a member of the Company's credit committee from 2018 to 2020.

Board of Directors / continued



Ruth Parasol

Non-independent Non-executive Director

Appointment

9 October 2020

Responsibilities & Experience

Ruth is a successful entrepreneur and one of the world's most successful self-made businesswomen. She currently advises over £1B AUM within her own private family office with international businesses active in Real Estate, Asset Management and Private Equity. A female pioneer in male-dominated industries, Ruth was the first woman to IPO her company, Party Gaming Plc, onto the LSE FTSE in 2005 for \$8.46B.

The Parasol Foundation Trust, of which Ruth is principal benefactress, has awarded over £35m to a series of ambitious projects in Gibraltar, UK, US, Israel and further afield. The Foundation focuses on creating opportunity and advancing women in science and arts. Recent initiatives include the Parasol Foundation Women in Photography Project at the V&A, and The Parasol Foundation Centre for Women's Health and Cancer Research, which is researching advanced treatments for women's cancers and exploring approaches for reducing the likelihood of premature birth.

Ruth is also a non-executive director of Recognise Bank Limited.



Simon Wainwright

Senior Independent Non-executive Director

Appointment

10 June 2021

Responsibilities & Experience

Simon has 40 years experience in global banking and insurance. He is Executive Vice President and Head of 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, Commercial, Corporate and Structured Finance. Simon is also a non-executive director of National Counties Building Society. He holds degrees from The London Institute of Banking and Finance, Oxford Brookes Business School, and Henley Business School, and is also a Chartered Director, IOD.

Simon is a member of the Nomination Committee and is also a non-executive director of Recognise Bank Limited.

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 voluntarily 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 financial matters, 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;
- in liaison with Recognise Bank, the Group matters reserved include:
 - ensuring a sound system of internal controls and risk management;
 - 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 34, 35 and 36. The terms of reference of each committee are available in the Document Library on the Company's website at <https://www.cityoflondongroup.com/news-and-investors/>

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

THE ROLE OF THE CHAIR

The Company's only executive director, Michael Goldstein, stepped down from his role as Chief Executive Officer in March 2022 and is not being replaced as, following the divestment of the Group's non-core businesses, the Group's activities are now concentrated in Recognise Bank. Jean Murphy, the Chief Executive Officer of Recognise Bank, and David Jenkins, the Chief Financial Officer, support the Chair in respect of both the Company and Recognise Bank and are responsible for managing day-to-day operations and implementing the strategy of both.

The roles of the Chair of the Company and group executives acting on its behalf 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 non-executive directors and Group executives.

Philip Jenks, who was appointed as the Chair on 10 June 2021, is deemed to be independent within the definition of the Code.

THE BOARD

The Board currently comprises eight directors, all of whom, including the Chair, are non-executive directors. The Chair and four other directors are independent and hence the Board has a majority of independent non-executive directors. Biographical details of directors together with details of their significant commitments are set out on pages 28 to 31 of this report.

Corporate governance statement / continued

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, technology and industry experience as well as the ability to provide constructive challenge to the views and actions of group executive management in meeting agreed goals and objectives.

BOARD PROCEDURES

Board meetings are an important way in which the directors discharge their duties, particularly under section 172 of the Companies Act 2006. The Board meets at least four 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 relevant chair, and papers are circulated to provide Board and committee 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 number of changes at board level last year, the Board decided to postpone the next board evaluation, which will be carried out in the current year. The Board has yet to put in place a longer-term succession plan for the Board and senior

Group executives as the Group has been 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.

The Company adopted a Diversity and Inclusion Policy during the year and this will be followed when any future appointments to the Board are made. The Company is 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.

Of the three directors during the year who were not independent, two were appointed under the terms of the Company's relationship agreement with Parasol V27 Limited and one under the terms of the Company's agreement with Max Barney Investments Limited. As mentioned above, the Chair Philip Jenks is deemed to be independent 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 has 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.

Corporate governance statement / continued

The non-executive directors serve on the basis of letters of appointment, which are available for inspection at each annual general meeting and at the Company's registered office. Further details on their terms of appointment can be found on page 40 of this report.

AUDIT AND RISK COMMITTEE REPORT

The current members of the audit and risk committee are Richard Gabbertas (Chair), Louise McCarthy and Moorad Choudhry. Philip Jenks was a member until 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. Due to the number of changes at board level last year, the Chair decided to postpone the next Audit and Risk committee evaluation, which will be carried out in the current year.

FINANCIAL RESULTS

The audit and 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 (interest income), where there is a risk that revenue may be overstated. Testing confirmed income had been recognised in the correct accounting period.
- 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 direct and indirect economic consequences of the war in Ukraine on the SME sector increase both the level of judgement required and the inherent subjectivities.
- Impairment of carrying value in subsidiaries, which would reduce the net asset value of the Company and Group. The review of future projections and cash flow forecasts concluded that no further provisions were required in addition to those already included in the financial statements.
- Going concern, having regard to the assumptions made by Group companies in preparing detailed

cash flow forecasts on both "most likely" and "worst case" scenarios for the period of at least 12 months from August 2022, and the main risk factors that apply, including those flowing from the war in Ukraine. 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. As the Company's subsidiary Recognise Bank Limited has been a public interest entity ("PIE") since 10 November 2020, the external auditors ceased providing non-audit services to the Group in February 2021. The audit fees for the year under review appear in note 9 on page 76.

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, continuing as auditor after a retender exercise in 2018. Following the receipt of a full UK banking licence by Recognise Bank in September 2021 and the divestment of the Group's non-core activities, the directors decided it would once again be appropriate for the Company to undertake an audit retendering exercise with the objective of appointing an auditor for a period of up to 10 years, with the first year of appointment being in respect of the year ending 31 March 2023.

Following completion of this re-tendering exercise, the directors have decided to appoint PricewaterhouseCoopers LLP as auditors of the Company and its subsidiaries. A resolution proposing the appointment of PricewaterhouseCoopers LLP as auditors will be put to members at this year's AGM. We should like to take this opportunity of thanking BDO LLP for the services they have provided during their tenure as auditors.

As part of its deliberations, the committee considered the effectiveness of the audit process for the current year by discussing the results of the external audit, including BDO LLP's views on material accounting issues and key judgements and estimates. The committee was satisfied with the effectiveness of the external audit process.

Corporate governance statement / continued

INTERNAL AUDIT

The Company's subsidiary, Recognise Bank Limited, has appointed Deloitte to provide its internal audit function. The audit and risk committee has agreed it was not appropriate at the present time to have an internal audit function for other group companies.

In addition to providing quarterly updates on the status of the Internal Audit Plan, Deloitte prepares an annual report summarising internal audit findings and identifying themes and areas for future focus in respect of governance, risk management and culture. In the audit and risk committee's opinion there were no material adverse findings that arose from Internal Audit's work. The Audit Committee of Recognise Bank has reviewed the work of the Internal Auditors and believe it to be effective.

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 on the maintenance of proper accounting records and the reliability of the financial information used in 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.
- Monthly bank and key control account reconciliations.

- Payment authorisation controls.
- The maintenance of detailed risk registers which include 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 101 and 111. The directors' statement on going concern is on page 23.

The Section 172 statement is on pages 25 and 26.

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 37 to 40.

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 nomination committee comprises Philip Jenks (Chair) and Simon Wainwright. Michael Goldstein was a member of the committee until 22 March 2022. With effect from 31 March 2022, Bryce Glover, the Deputy CEO of Recognise Bank, has been invited to attend all meetings of the committee. 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 during the Company's financial year 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 and 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 ¹	4	10	-	-	-	-	-	-
M H Goldstein ²	11	15	-	-	-	-	1	1
P G Milner	11	15	-	-	-	-	-	-
C B Wagman ³	-	3	-	-	-	-	-	-
R Parasol	7	15	-	-	-	-	-	-
N Bossano-Llamas	11	15	-	-	-	-	-	-
P Jenks	15	15	1	1	3	3	1	1
R Gabbertas	13	15	4	4	-	-	-	-
L McCarthy	15	15	4	4	3	3	-	-
S M Choudhry	11	15	3	4	2	3	-	-
S Wainwright ⁴	10	12	-	-	-	-	1	1

1 A J Crossley resigned on 8 September 2021.

2 M H Goldstein resigned on 22 March 2022.

3 C B Wagman resigned on 10 June 2021.

4 S Wainwright was appointed on 10 June 2021.

AGM

The Company will send the notice of AGM and supporting papers to shareholders at least 21 clear days before the meeting and responds promptly to any enquiries received from shareholders.

By order of the Board

Ben Harber
Company Secretary

6 September 2022

Directors' Remuneration report

ANNUAL REPORT ON REMUNERATION

Remuneration committee

The members of the remuneration committee are Louise McCarthy (Chair), Philip Jenks and Moorad Choudhry. Richard Gabbertas was a member until 30 September 2021. 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, which is involved in setting pay for executive directors and senior managers of the Company only, is responsible for developing the policy on remuneration and for determining specific remuneration packages for executive directors.

Responsibility for the remuneration policy of subsidiaries is devolved to the boards of those companies. However, the remuneration committee is aware of pay and conditions for the senior managers in other Group companies.

The remuneration committee met three times during the year and reported on its deliberations to the Board, which includes directors nominated by shareholders.

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

REMUNERATION OF EXECUTIVE DIRECTOR

Elements of remuneration

Michael Goldstein stepped down as Chief Executive Officer of the Company on 22 March 2022. The remuneration of Mr Goldstein during the year up to the date of his resignation comprised his base salary. Under his termination arrangements, Mr Goldstein received payment in lieu of notice, a termination payment and a transfer of shares.

Executive directors

Following the sale of Milton Homes Limited and the ongoing run-off of the Credit Asset Management Limited loan and lease portfolios, the Group's business activities are now mainly undertaken through Recognise Bank with the Company primarily acting as a holding company. Accordingly, the directors have concluded that there is no longer a requirement for the Company to have a Chief Executive Officer. The majority of the Company's directors are also non-executive directors of Recognise Bank Limited.

SHARE OPTION SCHEMES

Fixed price options

Details of the share options held and awards are given in the table on page 39.

Directors' Remuneration report / continued

Total remuneration for each director

Directors' remuneration for the years ended 31 March 2022 and 2021.

Executive director	2022 £	2021 £
Michael Goldstein		
Salary	353,141	350,000
Pension	12,000	-
Bonus	-	275,000
Compensation for loss of office	164,800	-
Payment in lieu of notice	175,000	-
Value of shares transferred	210,000	-
Benefits	3,673	2,542
	918,614	627,542

Non-executive directors

The remuneration of the non-executive directors, which comprised fees only unless stated otherwise, was:

	2022 £	2021 £
Moorad Choudhry ^{(a)(b)}	80,000	12,778
Andy Crossley ^(c)	13,192	35,000
Richard Gabbertas ^(a)	49,583	5,625
Philip Jenks ^{(a)(d)}	90,750	5,250
Nyreen Bossano-Llamas	30,000	14,346
Louise McCarthy ^(a)	49,250	5,125
Paul Milner	30,000	35,883
Ruth Parasol	30,000	14,346
Colin Wagman ^(e)	7,897	40,000
Simon Wainwright ^(f)	48,500	-

(a) He/she is also a non-executive director of Recognise Bank Limited, which meets his/her remuneration costs. The remuneration stated above shows the fees received as a director of both companies.

(b) Includes £40,000 for chairing and assisting the Asset and Liability Committee of Recognise Bank prior to the appointment of the Group Treasurer.

(c) Resigned on 8 September 2021.

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

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

(f) Remuneration from the period since his appointment on 10 June 2021. He is also a non-executive director of Recognise Bank Limited, which meets his remuneration costs.

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 2022	At 31 March 2021 ^(a)
Moorad Choudhry	-	-
Richard Gabbertas ^(b)	22,000	15,000
Philip Jenks	35,000	35,000
Nyreen Bossano-Llamas	-	-
Louise McCarthy	-	-
Paul Milner ^(c)	106,238	16,238
Ruth Parasol	-	-
Simon Wainwright	-	-

(a) At date of appointment if later.

(b) R Gabbertas holds 3,500 warrants issued under the Open Offer on 21 October 2021.

(c) P Milner holds 45,000 warrants issued under the Open Offer on 21 October 2021.

SHARES HELD BY EBT

5,174,643 shares were held by the Employee Benefit Trust at 31 March 2022 (21,849 at 31 March 2021). 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. Since the year end the Trustees of the Employee Benefit Trust have transferred 360,824 ordinary shares to M Goldstein under his termination arrangements.

SHARE OPTIONS

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

	Date of grant	At 31/03/21	At 31/03/22	Exercisable from	Exercisable to	Exercise price
Share Option Plan 2017						
P Milner	05/10/17	333,333	233,333	05/10/2020	05/10/2027	90.0p
	31/07/18	137,931	-	31/07/2021	31/07/2028	145.0p
		471,264	233,333			

The remuneration committee decided the options issued under the Share Option Plan 2017 on 31 July 2018 should lapse as the performance conditions were not met at the vesting date of 31 July 2021.

Directors' Remuneration report / continued

SERVICE CONTRACTS

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	22 months	1 month	None
Richard Gabbertas ^(a)	12 July 2021	22 months	1 month	None
Philip Jenks ^(a)	12 July 2021	22 months	1 month	None
Nyreen Bossano-Llamas	9 October 2020	Note ^(b)	1 month	None
Louise McCarthy ^(a)	12 July 2021	22 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	21 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 the appointment immediately if Parasol V27 Limited ceases to have a right to appoint directors to the Board.

(c) Company is entitled to terminate the 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 is signed on its behalf by

Louise McCarthy
Chair of remuneration committee

6 September 2022

Directors' report

This is the Directors' report for the year to 31 March 2022.

RESULTS AND DIVIDENDS

The results for the Group are set out on page 46.

No dividends were declared during the year (2021: 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

Risk management, including financial risk management, is set out on pages 15 to 20 of this annual report. Financial risk policies and the relevant risk disclosures are set out in note 5.

PRINCIPAL ACTIVITY

The Company is the parent company of a group whose business activities are now undertaken principally through one subsidiary, Recognise Bank Limited, which became a fully authorised UK bank in September 2021. Neither the Company nor any of its subsidiaries has any branches.

Recognise Bank focuses on providing banking and associated financial services to the UK SME market. The run-off of the existing loan and lease portfolios of two other group companies which provided finance to the SME sector continued during the year: the run-off of one company was completed by the year end.

The Company sold its two non-core businesses, Acorn to Oaks Financial Services Limited and Milton Homes Limited, during the year. Accordingly, the Group now operates solely in the financial services sector.

DIRECTORS AND THEIR INTERESTS

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

N Bossano-Llamas

S M S Choudhry

A J Crossley – resigned on 8 September 2021

R K Gabbertas

M H Goldstein – resigned on 22 March 2022

P A Jenks

L N McCarthy

P G Milner

R M Parasol

C B Wagman – resigned on 10 June 2021

S Wainwright – appointed on 10 June 2021.

Biographical details of the current directors are given on pages 28 to 31.

Directors' interests in the shares and warrants of the Company are shown in the Directors' Remuneration report on page 39.

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 28.

Directors' report / continued

MAJOR INTERESTS IN ORDINARY SHARES

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

	Number of ordinary shares at 6 September 2022	%
Parasol V27 Limited	57,125,000	47.83
Max Barney Investments Limited	21,140,101	17.70
DV4 Limited	18,816,667	15.76
J S Oakley	3,699,391	3.10

The Company has agreements with Parasol V27 Limited and DV4 Limited in respect of themselves and certain other people who are considered to comprise a concert party which regulate arrangements with each.

DIRECTORS' INDEMNITIES AND INSURANCE

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

POLITICAL DONATIONS

No political donations were made during the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The statement of directors' responsibilities is set out on page 101 of this annual report.

SECTION 172 STATEMENT

The Section 172 statement is set out on pages 25 and 26 of this annual report.

FINANCIAL INSTRUMENTS

Details of the financial instruments to which the Group is a party are included in note 5 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

Following the receipt of a full UK banking licence by Recognise Bank in September 2021 and the divestment of the Group's non-core activities, the directors decided it would once again be appropriate for the Company to undertake an audit re-tendering exercise with the objective of appointing an auditor for a period of up to 10 years, with the first year of appointment being in respect of the year ending 31 March 2023.

Following completion of this re-tendering exercise, the audit committee and the board of directors have decided to recommend the appointment of PricewaterhouseCoopers LLP as auditors of the Company and its subsidiaries. A resolution proposing the appointment of PricewaterhouseCoopers LLP as auditors will be put to members at this year's AGM.

Directors' report / continued

EXPLANATION OF BUSINESS AT THE ANNUAL GENERAL MEETING

The Notice of Annual General Meeting is set out on page 113. 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 9 - 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 10 - appointment of auditors and determination of their fees - Company law requires shareholders to reappoint the auditors each year. Following the conclusion of a robust tender process the audit and risk committee, having reviewed the effectiveness, independence and objectivity of the proposed auditors and on behalf of the Board of directors, recommends the appointment of PricewaterhouseCoopers LLP as auditors of the Company. The resolution also authorises the directors to determine the auditors' remuneration in accordance with normal practice.

Resolution 11 - 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 2023, 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 £238,861.28, representing a maximum of 11,943,064 ordinary shares

of 2 pence each, equivalent to approximately 10% of the capital of the Company in issue.

Resolution 12 - 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 £238,861.28 in ordinary shares (that is 11,943,064 ordinary shares of 2 pence each), equivalent to approximately 10% of the issued share capital of the Company, without the shares first being offered to existing shareholders. This resolution will be proposed subject to resolution 11 (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 11.

Resolution 13 - 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 11,943,064 ordinary shares. This represents 10% of the capital of the Company.

The maximum price paid per share shall be equal to 5% above the average market values of the shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the share is purchased.

The minimum price paid shall be the nominal value per share. The directors will only use this authority to purchase shares after careful deliberation, taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. The directors will also take into account the effects on earnings per share and the benefit for shareholders generally. Any shares bought by the Company under this authority will either be held in treasury, with a view to possible re-issue at a future date, or cancelled. The directors will decide at the time of purchase whether to

Directors' report / continued

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 2023, whichever is earlier.

By order of the Board

Ben Harber
Company Secretary

6 September 2022

FINANCIAL STATEMENTS



Consolidated income statement

for the year ended 31 March 2022

	Notes	2022 £'000	2021 £'000 (note(a))
Interest income		2,897	1,900
Interest expense		(1,088)	(614)
Net interest income	6	1,809	1,286
Fee and commission income		52	179
Fee and commission expense		(23)	(12)
Net fees and commission	7	29	167
Total operating income		1,838	1,453
Operating expenses			
Staff costs	8	(9,658)	(7,674)
Other operating expenses	9	(5,482)	(3,329)
Finance expense	10	(19)	(36)
Depreciation and amortisation	11	(629)	(395)
Net impairment gain/ (loss) on financial assets	12	305	(138)
Loss from continuing operations		(13,645)	(10,119)
Profit/(loss) for the year from discontinued operations	24	360	(2,760)
Tax charge for the year	13	-	-
Loss after tax		(13,285)	(12,879)
Other comprehensive income		1	-
Total comprehensive loss for the financial year, attributable to equity shareholders		(13,284)	(12,879)
Basic and diluted earnings per share attributable to owners of the parent	15		
Continuing operations		(14.84)p	(16.84)p
Discontinued operations		0.40p	(4.59)p
Total		(14.44)p	(21.43)p

(a) Prior year figures have been reclassified within the consolidated income statement: the results previously reported are unchanged (see note 2.1 on page 55).

(b) The loss in each year is wholly attributable to the owners of the parent.

Consolidated statement of comprehensive income

for the year ended 31 March 2022

	2022 £'000	2021 £'000
Loss for the year from continuing operations	(13,645)	(10,119)
Profit/loss for the year from discontinued operations	360	(2,760)
Total loss for the year	(13,285)	(12,879)
Other comprehensive income from continuing operations		
Item that will not be reclassified to profit or loss		
Income from legal case investments	1	-
Other comprehensive income from continuing operations	1	-
Total other comprehensive income	1	-
Total comprehensive expense from continuing operations	(13,644)	(10,119)
Total comprehensive income/expense from discontinued operations	360	(2,760)
Total comprehensive expense	(13,284)	(12,879)
Total comprehensive expense attributable to:		
Owners of the parent	(13,284)	(12,879)
	(13,284)	(12,879)

Consolidated statement of changes in equity

	Equity instrument £'000	Accumulated losses £'000	Capital reserve £'000	Share premium £'000	Share capital £'000	Total equity £'000
At 31 March 2020	1,293	(31,474)	-	50,799	4,448	25,066
Loss for the year - continuing operations	-	(10,119)	-	-	-	(10,119)
Loss for the year - discontinued operations	-	(2,760)	-	-	-	(2,760)
Total comprehensive expense	-	(12,879)	-	-	-	(12,879)
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	-	(4,480)	-	4,368	112	-
Issue of shares following cash raise	-	-	-	25,585	675	26,260
Transfer to current liabilities	(1,293)	-	-	-	-	(1,293)
Total contributions by and distributions to owners	(1,293)	(4,299)	3,648	31,976	(2,833)	27,199
At 31 March 2021	-	(48,652)	3,648	82,775	1,615	39,386
Loss for the year - continuing operations	-	(13,645)	-	-	-	(13,645)
Profit for the year - discontinued operations	-	360	-	-	-	360
Income from legal case investments	-	1	-	-	-	1
Total comprehensive expense	-	(13,284)	-	-	-	(13,284)
Contributions by and distributions to owners:						
Share-based payments	-	259	-	-	-	259
Issue of shares to Employee Benefit Trust	-	(3,787)	-	3,684	103	-
Issue of shares under Subscription Agreements	-	-	-	10,082	378	10,460
Issue of shares under Open Offer	-	-	-	1,170	40	1,210
Issue of shares on exercise of warrants	-	-	-	-	-	-
Total contributions by and distributions to owners	-	(3,528)	-	14,936	521	11,929
At 31 March 2022	-	(65,464)	3,648	97,711	2,136	38,031

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 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	(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
Loss for the year	-	(2,138)	-	-	-	(2,138)
Other comprehensive income						
Income from legal case investments	-	1	-	-	-	1
Total expense for the year	-	(2,137)	-	-	-	(2,137)
Contributions by and distributions to owners:						
Share-based payments	-	259	-	-	-	259
Issue of shares to Employee Benefit Trust	-	-	-	3,684	103	3,787
Issue of shares under Subscription Agreements	-	-	-	10,082	378	10,460
Issue of shares under Open Offer	-	-	-	1,170	40	1,210
Total contributions by and distributions to owners	-	259	-	14,936	521	15,716
At 31 March 2022	-	(33,248)	3,648	97,711	2,136	70,247

Consolidated balance sheet

as at 31 March 2022

	Notes	2022 £'000	2021 £'000 (note(a))
Assets			
Cash and cash equivalents	16	37,522	14,493
Debt securities	18	-	6,500
Loans and leases receivables	19	101,054	17,996
Property, plant and equipment	20	120	150
Intangible assets	21	980	1,028
Right-of-use assets	22	189	369
Other assets	23	1,012	927
		140,877	41,463
Assets in disposal groups classified as held for sale	24	-	66,294
Total assets		140,877	107,757
Liabilities			
Borrowings	25	2,952	6,998
Deposits from customers	26	94,994	2
Lease liabilities	22	130	398
Other liabilities	27	4,770	4,243
		102,846	11,641
Liabilities directly associated with assets in disposal group classified as held for sale	24	-	56,730
Total liabilities		102,846	68,371
Equity			
Share capital	28	2,136	1,615
Share premium		97,711	82,775
Capital reserve	28	3,648	3,648
Accumulated losses		(65,464)	(48,652)
Total equity		38,031	39,386
Total equity and liabilities		140,877	107,757

(a) Prior year figures have been reclassified within the consolidated balance sheet: the carrying amounts previously reported are unchanged, as is the equity (see note 2.1 on page 55).

The notes on pages 55 to 100 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 6 September 2022.

They were signed on its behalf by

Philip Jenks
Chair

Company balance sheet

as at 31 March 2022

	Notes	2022 £'000	2021 £'000 (note(a))
Assets			
Cash and cash equivalents	16	650	962
Investments	17	69,838	46,683
Property, plant and equipment	20	50	92
Loan to related party	19	3,156	17
Right-of-use assets	22	88	369
Other assets	23	1,881	1,467
		75,663	49,590
Assets classified as held for sale	24	-	9,564
Total assets		75,663	59,154
Liabilities			
Borrowings	25	-	1,293
Loan from group company	25	4,000	-
Lease liabilities	22	27	398
Other liabilities	27	1,389	795
Total liabilities		5,416	2,486
Equity			
Share capital	28	2,136	1,615
Share premium		97,711	82,775
Capital reserve	28	3,648	3,648
Accumulated losses		(33,248)	(31,370)
Total equity		70,247	56,668
Total equity and liabilities		75,663	59,154

(a) Prior year figures have been reclassified within the balance sheet: the carrying amounts previously reported are unchanged, as is the equity (see note 2.1 on page 55).

The parent company's loss after tax for the financial year amounts to £2,138,000 (2021: loss £6,294,000). The notes on pages 55 to 100 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 6 September 2022.

They were signed on its behalf by

Philip Jenks
Chair

Consolidated statement of cash flows

for the year ended 31 March 2022

	2022 £'000	2021 £'000
Cash flows from operating activities		
Loss before tax (see note (a))	(13,285)	(12,647)
Adjustments for:		
Depreciation and amortisation	629	399
Share-based payments	259	182
(Decrease)/ increase in allowance for expected credit losses	(305)	138
Impairment of goodwill	-	117
Change in value of business unit held for disposal/ on reclassification as disposal groups	(360)	6,657
Investment properties and equity release plan financial assets:		
Increases in the fair values of these assets	-	(6,712)
Realised gains on the disposal of these assets	-	(1,082)
Equity transfer income	-	(1,212)
Interest payable on lease liabilities	19	-
Interest payable	-	4,514
Changes in operating assets and liabilities:		
Increase in trade and other receivables	(76)	(692)
Increase in trade and other payables	1,543	1,419
Leases and loans advanced	(98,096)	(7,921)
Leases and loans repaid	15,343	9,760
Change in Deposits received	94,992	-
Change in Debt securities	6,500	(6,500)
Cash generated from/ (used in) operations	7,163	(13,580)
Corporation tax	-	-
Cash flows from operating activities – discontinued operations	3,289	-
Net cash generated from/ (used in) operating activities	10,452	(13,580)
Cash flow from investing activities		
Proceeds from the sale of Investment properties and equity release plan financial assets	-	8,271
Net cash received on disposal of discontinued operations less cash held in each at the disposal date:		
Milton Homes Limited	5,620	-
Acorn to Oaks Financial Services Limited	(523)	-
Costs of disposal of discontinued operations	(565)	-
Purchase of rights to CAML 8% Preference shares accrued dividends	(966)	-
Purchase of CAML 8% Preference Shares	(34)	(1,250)
Proceeds from sale of fixed asset	1	-
Investment in intangible assets	(156)	(536)
Purchase of property, plant and equipment	(53)	(127)
Net cash generated from investing activities	3,324	6,358
Cash flow from financing activities		
Gross proceeds from issues of ordinary shares	12,560	26,986
Costs of share issues (see note (b))	(889)	(726)
Loans drawn down	-	294
Repayment of loans	(2,729)	(10,488)
Payment of lease liabilities and rent deposits	(459)	(357)
Interest paid	-	(443)
Net cash generated from financing activities	8,483	15,266

Consolidated statement of cash flows

for the year ended 31 March 2022 / continued

	2022 £'000	2021 £'000
Net increase in cash and cash equivalents in year	22,259	8,044
Cash and cash equivalents brought forward	14,493	7,219
Cash included as Assets in disposal groups classified as held for sale	-	(770)
Cash held in discontinued operations at beginning of year	770	-
Net cash and cash equivalents	37,522	14,493
Operating, investing and financing activities are categorised as follows:		
Net cash generated from/ (used in) operating activities		
Continuing operations	7,163	(12,556)
Discontinued operations	3,289	(1,024)
	10,452	(13,580)
Net cash generated from investing activities		
Continuing operations	(1,208)	(1,910)
Discontinued operations	4,532	8,268
	3,324	6,358
Net cash generated from financing activities		
Continuing operations	8,483	21,442
Discontinued operations	-	(6,176)
	8,483	15,266

(a) Interest received during the year ended 31 March 2022 was £5,095,000 and interest paid was £518,000.

(b) In the prior year, share issue costs of £726,000 which were paid separately from the proceeds of share issuance were netted off the gross proceeds of the share issues in both the consolidated and company statements of cash flows. The consolidated and company cash flow statements have been restated to show these costs separately: the restatement has not changed the disclosure of the net cash generated from financing activities in either cash flow statement. There was no impact on the losses and net assets of the Group and Company.

Company statement of cash flows

for the year ended 31 March 2022

	2022 £'000	2021 £'000
Cash flows from operating activities		
Loss before tax	(2,137)	(6,294)
Adjustments for:		
Depreciation and amortisation	323	318
Share-based payments	89	127
(Profit on sale of)/ provision on investments reclassified as assets held for sale	(320)	4,803
Provision for losses in subsidiaries	-	365
Provision for amounts owed by related parties	662	13
Dividends from subsidiaries	-	(94)
Interest receivable	-	(1,095)
Interest payable	13	74
Changes in working capital:		
Increase in trade and other receivables	(15)	(1,001)
Increase in trade and other payables	1,145	84
Net cash used in operating activities	(240)	(2,700)
Cash flow from investing activities		
Subscription for shares in Recognise Bank	(22,950)	(29,729)
Purchase of CAML 8% Preference Shares	(34)	(1,250)
Purchase of rights to CAML 8% Preference shares accrued dividends	(966)	-
Proceeds from sale of Milton Homes	9,296	-
Payment on sale of Acorn to Oaks Financial Services Limited	(140)	-
Costs of disposal of discontinued operations	(565)	-
Loans advanced to group companies	-	(415)
Loans advanced by/ repaid by group companies	4,000	3,092
Repayments of Deep Discount Bonds by Milton Homes	-	1,000
Purchase of property, plant and equipment	-	(85)
Net cash used in investing activities	(11,359)	(27,387)
Cash flow from financing activities		
Gross proceeds from issues of ordinary shares	12,560	26,986
Costs of share issues (see note (b) on page 53)	(889)	(726)
Payments of lease liabilities	(384)	(357)
Interest paid	-	(69)
Net cash generated from financing activities	11,287	25,834
Net decrease in cash and cash equivalents	(312)	(4,253)
Cash and cash equivalents brought forward	962	5,215
Net cash and cash equivalents	650	962

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 primarily involved in banking and financial services. Its banking subsidiary, Recognise Bank Limited ("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.

During the year to 31 March 2021, the Group decided to 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.

Acorn to Oaks was sold on 1 April 2021 and the sale of Milton Homes was completed on 10 March 2022, after regulatory approval for the change in control was given by the FCA.

Information on continuing and discontinued operations is disclosed separately in the financial statements with information on discontinued operations and the disposal groups being shown in note 24.

Details of the activities of the Group during the year to 31 March 2022 are given in the Strategic report.

These consolidated and separate financial statements have been approved for issue by the Board on 6 September 2022.

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 have been prepared in accordance with UK-adopted international accounting standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into the UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The group transitioned to UK-adopted international accounting standards in its consolidated financial statements for the year commencing on 1 April 2021. There was no impact or changes in accounting from the transition.

The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by financial assets at fair value through profit or loss or other comprehensive income.

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.

Presentation of prior year figures

The presentation and classification of current financial statements has been changed to reflect disclosures that are appropriate for banking institutions.

Accordingly, comparative information in respect of the preceding period has been reclassified in a manner that provides relevant, comparable and understandable information. This reclassification does not impact the results and carrying amounts for the previous year.

This reclassification affects mainly the primary statements, segmental reporting and disclosures related to financial instruments. A reconciliation between the original and reclassified prior year figures is set out in note 34.

Functional and presentational currency

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.

Foreign currency transactions are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Going concern

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

The directors consider the going concern basis to be appropriate for both the Company and the Group following their assessment of the Group's financial position and its ability to meet its obligations as and

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

when they fall due for a period of at least 12 months from the date of signing these accounts. The going concern position is further discussed in the Strategic report on page 23. The Strategic report also includes a Group viability statement on page 24.

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

- the capital structure and liquidity of the Company and the Group over the period of 12 months from the signing of these accounts;
- the principal and emerging risks facing the Company and the Group and its systems of risk management and internal control;
- uncertainties in the UK economic outlook and actions the Group could take to mitigate the impact on Recognise Bank and other Group companies;
- the raising of capital by the Company to support the growth of Recognise Bank in serving the SME market: and
- stress scenarios which included not raising further capital and incurring greater losses from loan defaults during the period of 12 months from the signing of the accounts.

The directors have also considered mitigating actions that could be taken by the Group and the Board if there were a delay in raising additional capital to support the growth of its main operating subsidiary, Recognise Bank, or if the amount raised was less than forecast.

In addition to the stress scenarios referred to 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:

- Interest Rate Benchmark Reform – Phase 2 introduces amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and is mandatorily effective for periods beginning on or after 1 April 2021
- IFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

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 2022 unless otherwise stated.

- 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
- Annual Improvements 2018–2020
- Amendments to IFRS 3: Business Combinations, reference to the Conceptual Framework
- Amendments to IAS 37: Provisions, Contingent Liabilities, Contingent Assets

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

2.3 Consolidation

2.3.1 Subsidiaries

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.

2.3.2 Intercompany transactions

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.

2.3.3 Loss of control and change in ownership

When the Group loses control over subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any interest retained is measured at fair value when the control is lost.

Notes to the financial statements / continued

2.4 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.

2.5 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 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 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 2021. For the savings banking platform amortisation began in October 2021 after Recognise Bank became fully licensed in September 2021. Further elements of the core banking platform will be released at a later 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

2.6 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 or 5 years straight-line
--------------------------------	----------------------------

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

2.7 Other assets

The carrying value of other assets is reviewed on an ongoing 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.

2.8 Financial assets and liabilities

• Initial recognition and measurement

The Group and Company recognises financial assets and liabilities when it becomes a party to the contractual provisions of the instrument.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

All financial assets and liabilities are recognised at fair value on initial recognition. The fair value of a financial instrument at initial recognition is generally its transaction price.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities, are added to the fair value on initial recognition.

- **Classification and business model assessment**

Management determines the classification of its financial instruments at initial recognition.

A single classification and measurement model is used by the Group and Company for financial assets and liabilities, 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 and liabilities 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) Cash and balances

Cash and cash equivalents comprise cash in hand and call deposits with maturity of three months or less from the date of inception, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in values.

(b) 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 whose contractual cashflows are solely payments of principal and interest ("SPPI") and are measured at fair value through other comprehensive income ('FVOCI').

(c) Loans advanced to customers

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.

(d) 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.

(e) 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.

(f) Deposits from customers

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments. These liabilities are recognised when cash is received from the depositors and carried at amortised cost using the effective interest rate method. The fair value of these liabilities repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(g) Other liabilities

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.

(h) Intra-group balances – separate financial statements

In the Company, 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.

(i) Loan commitments

A loan commitment is a commitment to make a loan in the future at a specified rate. These commitments represent agreements to lend in the future subject to terms and conditions of the agreement, so the amount and timing of the future cashflows are uncertain.

Notes to the financial statements / continued

(j) Investment in subsidiaries – separate financial statements

Investments in subsidiaries are accounted for at cost less impairment.

- **Derecognition – Financial assets and liabilities**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risks and rewards of ownership.

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Statement of Financial Position.

In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. There have not been any instances where assets have been only partially derecognised.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, expire, are modified or exchanged.

2.8.1 Identification and measurement of the impairment of financial assets and liabilities

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 19.

(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; and
- 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 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 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.

Notes to the financial statements / continued

2 Summary of significant accounting policies continued

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.

2.9 Leases

At inception of a contract the Group assesses whether a contract is, or contains, a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or modification, the Group recognises right-of-use assets and lease liabilities, except for lease terms less than 12 months or leases of low value items.

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.

2.10 Preference shares

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

2.11 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.

2.12 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

2.13 Interest income and expense

Interest income and expense is recognised using the effective interest rate method. Interest income reflects the Bank's loan products where the interest rate is contractually set at a fixed or variable (floating) interest rate throughout the term of the loan. Also included in interest income are fees that are integral to the underlying creation of the financial instrument and interest on debt securities.

Broker expense fees which are an integral part of generating the loans receivable are therefore shown as a deduction from interest income.

Interest expense comprises funding costs and interest expensed on customer deposits.

2.14 Commission and fees

Other fees mainly relate to transaction and service fees, if any. These are expensed as the service is received.

2.15 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

2.16 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.

2.17 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 the EBT are shown as a deduction against equity in the Group balance sheet, as are the value of shares issued to and held by the EBT. 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.

2.18 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 and equity.

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.

Notes to the financial statements / continued

3 Judgements and estimates

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

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

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

(a) 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 (“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. The technical regulatory mobilisation conditions were met in June 2021. After satisfying capital adequacy mobilisation conditions in September 2021, Recognise Bank became a fully authorised UK bank able to accept savings deposits. To enable Recognise Bank to meet capital adequacy requirements and facilitate the growth of its business, the Company subscribed for additional shares in Recognise Bank during the year, investing a further £22,950k in cash. The Company’s total investment in Recognise Bank at 31 March 2022 was £67,794k. A further £6,451k in cash was invested in May 2022 to support the continued development of Recognise Bank in accordance with its business plan.

The directors consider that it is appropriate to continue to carry the investment in Recognise Bank at cost as it is anticipated that its business will develop in accordance with the business plan. The key underlying judgement in assessing whether there has been any impairment in the investment is the forecast projections made by Recognise Bank. The most recent projections show that the business will have sufficient funds to support its

planned development for at least 12 months from the date of signing these accounts.

The directors have considered the carrying value of the Company’s investment in Credit Asset Management Limited (“CAML”) whose loan and lease portfolios have been in run-off since March 2020 when the Board decided to cease doing further lending through CAML.

In addition to its existing investments in CAML ordinary shares and CAML 8% Redeemable Preference shares, the Company purchased additional CAML 8% Redeemable Preference shares during the year, paying £34k and increasing its holding to 31% of the CAML 8% Redeemable Preference shares in issue. 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 to March 2025 which incorporate judgements on the recoverability of the loan portfolio balances show that CAML will generate cash over the period and will not require financial support as its cost base reduces progressively. Accordingly, no change in the impairment provision is required in the current year and the amount attributable to the investment in ordinary shares at 31 March 2022 is unchanged from the previous year at £760k, while the 8% Redeemable Preference shares have a fair value equal to their cost of £1,284k. The carrying amount of the overall investment in the CAML ordinary and preference shares is £2,044k.

(b) Provisions for impairment of financial assets

(1) 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.

Forward looking macro-economic scenarios

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

Multiple economic variables including GDP, Unemployment, HPI, BoE interest rates and household disposable income were tested, and it was found that only GDP was a significant driver for both the cyclical and non-cyclical models.

Notes to the financial statements / continued

Four macroeconomic scenarios were modelled as follows:

- Forecast
- Moderate
- Severe
- Upside

The GDP path in the four scenarios varies across the future periods. In the Moderate scenario the GDP path is relatively flat across the period with little growth in the early years and with a long run average GDP of 0.42%. The Forecast and Upside GDP paths show a recovery in the economy until 2023 and then, over the long run, returns to the average GDP of 0.42%. In the Severe scenario, there is initially a large fall in GDP, followed by a recovery and eventually a return to long run average. The effect of these scenarios on the ECL is shown below.

	March 2022 £'000
Forecast	105.9
Moderate	153.3
Severe	630.6
Upside	97.5

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 of Recognise Bank's portfolio. The key area of judgement impacting the PD is the assignment of a credit rating. It is management judgement that a one notch down grade in the credit ratings of the portfolio would not result in a material misstatement.

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. To calculate the LGD for the products secured by property, a forecast of the value of the underlying collateral is determined.

Exposure at Default (EAD)

A categorised 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 categorise at the balance sheet date. The following weightings were used to obtain the overall risk ECL.

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

The credit portfolio as at 31 March 2022 was £98.9m (2021: £6.6m). Application of the model generated a Stage 1 IFRS 9 impairment provision as at 31 March 2022 of £153k (2021: £4k).

(2) CAML/PFL credit portfolio

CAML ceased lending in March 2020 and its then-existing lease and loan portfolio has been in run-off since that date. The size of the portfolio decreased from £6,114k to £2,308k over the year as more agreements moved to maturity.

The lease and loan portfolio has four product areas: finance lease, hire purchase, commercial loans and professions loans, with each agreement having been assigned a risk code from 1 - 4. The portfolio is widely spread over the SME market across the UK economy.

Notes to the financial statements / continued

3 Judgements and estimates continued

The IFRS 9 provision in respect of Stage 1 and Stage 2 agreements as at 31 March 2022 has been generated using CAML/PFL's existing internally-developed model. In addition, the overall IFRS 9 provision includes specific provisions, made for Stage 3 agreements on an individual basis, and a management overlay, as shown below:

Provisions	2022 £'000	2021 £'000
Model	15	70
Management overlay	185	354
Specific	910	1,959
Total	1,110	2,383

The reduction in the overall provision over the year reflects the reduction in the size of the portfolio.

Modelled provision

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 for this purpose. As this metric is not considered adequate in the present economic environment, an overlay which reflects the effect of the current economic environment on the future performance of the CAML/PFL portfolio has been assessed.

Changes in the Probability of Default and Loss given Default have been taken into account in assessing the management overlay provision.

In addition to the base forward-looking economic scenario, the model considers two other scenarios: a best case scenario with stronger economic growth and a worst case one with less economic growth. Due to the continuing run-off of the portfolio there is little difference between the base, best and worst case scenarios which generated a provision of £15k.

Specific provisions

Specific provisions are made for agreements categorised as Stage 3 agreements (ie in default) on an individual basis by management which uses 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.

Management overlay

Management has applied expert judgement to assess an appropriate overlay provision that takes account of factors not properly reflected in the model for inclusion in the overall IFRS 9 provision. These factors include future impacts of the war in Ukraine on the performance of the UK economy, in particular the SME sector, as well as information from CAML/PFL customers. Regard has also been paid to the portfolio's characteristics.

The assessment has resulted in an overlay provision which is in line with the relative size of the provision held at 31 March 2021. As a consequence, the provisions carried, excluding specific provisions, are approximately 7% of the total portfolio.

The application of the model, together with specific provisions and the management overlay generated as at 31 March 2022:

Stage 1 IFRS 9 impairment provision of £157k (2021: £371k);

Stage 2 IFRS 9 impairment provision of £2k (2021: £53k); and

Stage 3 IFRS 9 impairment provision of £951k (2021: £1,959k).

(3) 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 Segmental reporting

The Group's segmental reporting is in accordance with IFRS 8 Operating Segments.

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 and the prior year presentation has been aligned accordingly. 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.

As a result of aligning the presentation of figures, income and costs within the pre-tax profit and loss of each business segment in the prior year have been reclassified: the results previously reported for each business segment are unchanged.

The change in the presentation of the consolidated net assets as at 31 March 2021 has not resulted in any change in the consolidated net assets previously reported for the Group.

The Group is managed through its operating businesses. The main operating business is now Recognise Bank as CAML/PFL and PFS continued in run-off throughout the year.

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 2022

	Net operating income £'000	Intragroup interest income/ (expense) ^(a) £'000	Intragroup income/ (expense) ^(b) £'000	Other operating income/ (expense) £'000	Pre-tax profit/(loss) £'000
COLG					
Intragroup	-	73	716	-	789
Profit from discontinued operations ^(c)	-	-	40	320	360
Other	-	-	-	(2,625)	(2,625)
	-	73	756	(2,305)	(1,476)
Subsidiaries					
Recognise Bank	1,240	109	(655)	(13,138)	(12,444)
CAML/PFL	282	(73)	(43)	175	341
PFS	316	(109)	(18)	119	308
Other	-	-	-	(14)	(14)
	1,838	-	40	(15,163)	(13,285)
Continuing operations	1,838	-	-	(15,483)	(13,645)
Discontinued operations ^(c)	-	-	40	320	360
	1,838	-	40	(15,163)	(13,285)

(a) Intragroup interest income/(expense) represents interest payments on intragroup borrowings and working capital loans.

(b) Intragroup income/(expense) represents fees for management services and recharges for shared accommodation from COLG.

(c) Arises from the sale of Milton Homes.

Notes to the financial statements / continued

4 Segmental reporting continued

Pre-tax profit and loss

For the year ended 31 March 2021

	Net operating income £'000	Intragroup interest income/ (expense) £'000	Intragroup income/ (expense) £'000	Other operating income/ (expense) £'000	Pre-tax profit/ (loss) ^(a) £'000
COLG					
Intragroup	-	1,190	661	-	1,851
Change in value of business units on reclassification as disposal groups	-	-	-	(6,657)	(6,657)
Other	(36)	-	-	(3,046)	(3,082)
	(36)	1,190	661	(9,703)	(7,888)
Subsidiaries					
Continuing operations					
Recognise Bank	44	109	(438)	(7,527)	(7,812)
CAML/PFL	745	(66)	(102)	(874)	(297)
PFS	700	(328)	(26)	(237)	109
Other	-	-	-	(7)	(7)
Discontinued operations					
Milton Homes	9,005	(905)	(97)	(4,760)	3,243
Acorn to Oaks Financial Services	885	-	2	(882)	5
	11,343	-	-	(23,990)	(12,647)
Continuing	1,453	905	95	(12,572)	(10,119)
Discontinued	9,890	(905)	(95)	(11,418)	(2,528)
	11,343	-	-	(23,990)	(12,647)

(a) The composition of the segment information for 2021 has been changed to align with that for 2022. The overall results for each segment remain unchanged.

Notes to the financial statements / continued

Consolidated Net Assets

As at 31 March 2022

	Loans and advances to customers £'000	Less allowances for ECLs £'000	Other assets £'000	Segment total assets £'000	Customer deposits £'000	Other liabilities £'000	Segment total liabilities £'000
COLG							
Other	-	-	1,277	1,277	-	(1,440)	(1,440)
	-	-	1,277	1,277	-	(1,440)	(1,440)
Subsidiaries							
Recognise Bank	99,093	(153)	37,883	136,823	(94,994)	(3,189)	(98,183)
CAML/PFL	3,224	(1,110)	662	2,776	-	(3,223)	(3,223)
PFS	-	-	-	-	-	-	-
Other	-	-	1	1	-	-	-
	102,317	(1,263)	39,823	140,877	(94,994)	(7,852)	(102,846)

Consolidated Net Assets

As at 31 March 2021 (reclassified)

	Loans and advances to customers £'000	Less allowances for ECLs £'000	Other assets £'000	Segment total assets £'000	Customer deposits £'000	Other liabilities £'000	Segment total liabilities £'000
COLG							
Other	-	-	2,053	2,053	-	(2,456)	(2,456)
Assets held for sale	-	-	9,564	9,564	-	-	-
	-	-	11,617	11,617	-	(2,456)	(2,456)
Subsidiaries							
Recognise Bank	6,496	(5)	19,013	25,504	(2)	(2,170)	(2,172)
CAML/PFL	8,227	(2,382)	2,377	8,222	-	(6,079)	(6,079)
PFS	5,660	-	24	5,684	-	(934)	(934)
Other	-	-	-	-	-	-	-
	20,383	(2,387)	33,031	51,027	(2)	(11,639)	(11,641)

Notes to the financial statements / continued

5 Financial instruments and risk management

5.1 Financial instruments

The Group's and Company's financial instruments to which the impairment requirements in IFRS 9 are applied are listed in the tables below.

The prior year figures exclude those financial instruments that were reclassified as Assets within disposal groups held for sale or as liabilities directly related to Assets within disposal groups held for sale as at 31 March 2021.

Group	2022			2021		
	Current assets £'000	Non-current assets £'000	Total £'000	Current assets £'000	Non-current assets £'000	Total £'000
Financial assets						
Measured at amortised cost						
Cash and cash equivalents	37,522	-	37,522	14,493	-	14,493
Loans and advances to customers	10,054	91,000	101,054	9,859	8,137	17,996
Other debtors	341	-	341	381	-	381
Measured at fair value through other comprehensive income						
Debt securities	-	-	-	6,500	-	6,500
Total	47,917	91,000	138,917	31,233	8,137	39,370
Financial liabilities						
Measured at amortised cost						
Borrowings	2,622	330	2,952	2,729	2,976	5,705
Deposits from customers	62,671	32,323	94,994	2	-	2
Lease liabilities	94	36	130	289	109	398
Other liabilities	4,118	-	4,118	4,019	-	4,019
Total	69,505	32,689	102,194	7,039	3,085	10,124
Company						
Financial assets						
Measured at amortised cost						
Cash and cash equivalents	650	-	650	962	-	962
Other debtors	-	-	-	349	-	349
Amounts owed by subsidiaries	1,417	-	1,417	837	-	837
Measured at fair value through profit and loss account						
Loan to related party	3,156	-	3,156	17	-	17
Total	5,223	-	5,223	2,165	-	2,165
Financial liabilities						
Measured at amortised cost						
Loans from group companies	4,000	-	4,000	-	-	-
Lease liabilities	27	-	27	289	109	398
Other liabilities	1,047	-	1,047	772	-	772
Total	5,074	-	5,074	1,061	109	1,170

Notes to the financial statements / continued

At 31 March 2022 and 31 March 2021, the carrying amounts of debt securities, cash at bank 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, customer deposits and 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'.

5.2 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.

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:

Credit risk exposures (all Stage 1, unless otherwise stated)	2022 £'000	2021 £'000
On-balance sheet		
Cash and balances at central banks	37,522	14,493
Debt securities	-	6,500
Gross loans and leases receivable (net of ECLs)		
Stage 1	101,054	17,127
Stage 2	-	553
Stage 3	-	316
Other assets	1,012	927
Off-balance sheet		
Loan commitments and other credit related liabilities	19,700	6,159
As at 31 March	159,288	46,075

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.

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

5 Financial instruments and risk management continued

The table below shows the loan exposures of the Group in respect of secured loans:

Group	2022	
	Loan balance £'000	Collateral £'000
Loans and advances under IFRS 9		
Stage 1	97,738	200,577
Stage 2	-	-
Stage 3	-	-
As at 31 March	97,738	200,577

The table below represents an analysis of the loan to value of the loan exposures secured by property:

Group	2022	
	Loan balance £'000	Collateral £'000
Less than 60%	53,260	132,652
Stage 1	53,260	132,652
Stage 2	-	-
Stage 3	-	-
60%-80%	44,478	67,925
Stage 1	44,478	67,925
Stage 2	-	-
Stage 3	-	-
80%-100%	-	-
Stage 1	-	-
Stage 2	-	-
Stage 3	-	-
As at 31 March	97,738	200,577

In addition to secured loans, there were unsecured loans of £3,316,000 at 31 March 2022.

Notes to the financial statements / continued

The table below shows the concentration of the portfolio and the value of collateral held by loan product and location:

Group	2022	
	Loan balance £'000	Collateral £'000
Concentration by Product		
Bridging	9,757	23,361
Commercial	64,038	135,522
Professional buy-to-let	24,713	41,694
Working capital	940	-
Professional practice	756	-
Hire purchase	190	-
Finance leases	660	-
As at 31 March 2022	101,054	200,577
Concentration by Location		
East Midlands	3,838	10,855
East of England	6,020	16,790
London	20,290	43,325
North East	3,298	5,325
North West	21,340	38,378
South East	35,746	72,890
South West	662	1,190
Wales	1,476	3,303
West Midlands	215	395
Yorkshire & Humberside	4,853	8,126
Unsecured loans	3,316	-
As at 31 March 2022	101,054	200,577

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.

Liquidity risk

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources to enable it to meet its obligations as they fall due or can only secure such resources at excessive cost. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group has sufficient cash to meet its current requirements. At 31 March 2022 and 31 March 2021, the Group did not have a bank overdraft facility.

Notes to the financial statements / continued

5 Financial instruments and risk management continued

The total gross contractual undiscounted cash flows for financial liabilities, including interest payments are:

Year ended 31 March 2022	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	-	296	2,409	236	109	3,050
Other liabilities	-	4,118	-	-	-	4,118
Customer deposits	107	4,721	58,741	34,824	-	98,393
Lease liabilities	-	44	56	35	-	135
	107	9,179	61,206	35,095	109	105,696
Company						
Borrowings	-	-	4,000	-	-	4,000
Other liabilities	-	1,047	-	-	-	1,047
Lease liabilities	-	27	-	-	-	27
	-	1,074	4,000	-	-	5,074
Year ended 31 March 2021						
Group						
Interest-bearing borrowings	-	754	2,310	3,068	-	6,132
Other liabilities	-	4,019	-	-	-	4,019
Customer deposits	-	2	-	-	-	2
Lease liabilities	-	77	225	110	-	412
	-	4,852	2,535	3,178	-	10,565
Company						
Other liabilities	-	772	-	-	-	772
Lease liabilities	-	77	225	110	-	412
	-	849	225	110	-	1,184

Interest rate risk

Recognise Bank has interest-bearing assets and liabilities at fixed interest rates. The Group 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. The Group mitigates interest rate risk through the Recognise Bank 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 2022 or 31 March 2021.

In line with regulatory reporting requirements, as set by the EBA, the Bank considers a parallel 200 basis points (bps) movement to be appropriate for evaluating sensitivity to interest rate risk. As at 31 March 2022 the Group estimates that a +/- 200 bps movement in interest rates would have impacted the economic value of equity by +£26k/-£20k respectively (2021: +£184k/-£178k).

Notes to the financial statements / continued

Valuation of financial instruments

The Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions. In Recognise Bank this applies to Gilts and Treasury Bills which are held at fair value which is determined on a monthly basis by recalculating the nominal value of each holding against the close-of-business market price for each relevant instrument.

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making measurements:

Level 1: inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs are unobservable inputs for the asset or liability

No Level 1 or Level 2 assets were held at 31 March 2022 (2021: Level 1 Debt securities £6,500,000).

Level 3 valuation

In March 2021, assets within the Milton Home and Acorn to Oaks disposal groups became Level 3 assets on their reclassification as disposal groups. 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 following tables present the Group's assets that are measured at fair value:

Level 3 valuation	2022 £'000	2021 £'000
Acorn to Oaks disposal group	-	1,114
Milton Homes disposal group	-	8,450
	-	9,564

The movement on level 3 assets is as follows:

	2022 £'000	2021 £'000
Balance at 1 April	9,564	68,952
Movements prior to reclassification		
Additions	-	-
Equity transfer	-	1,212
Revaluations	-	6,712
Disposals	(9,564)	(7,188)
	-	69,688
Transfer to Milton Homes disposal group	-	(69,688)
Additions – disposal groups	-	9,564
Balance at 31 March	-	9,564

Notes to the financial statements / continued

5 Financial instruments and risk management continued

Capital Management

The Group maintains an actively managed capital base to cover risks inherent in the business. The primary objectives of capital management are to ensure that the Group complies with both external and internal capital requirements and maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group has prepared detailed budgets which include an assessment of its future capital requirements and is developing plans to meet these by accessing new funding as required.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions, risk characteristics of its activities and regulatory requirements. The adequacy of the Group's capital is monitored using, amongst other measures, the rules and ratios established by the PRA.

During the past year, the Group complied in full with all its externally imposed capital requirements. The table below shows the Group's CET1 capital ratios as at 31 March 2022 and 31 March 2021.

Capital Ratios (unaudited)	Group	
	2022 £'000	2021 £'000
CET 1 Capital Instruments	38,031	39,386
Deductions - Intangible assets/ Other deductions	(980)	(4,590)
CET 1 Capital after Deductions	37,051	34,796
Own Funds	37,051	34,796
CET1 Capital Ratio	41.47%	78.86%
Total Capital Ratio	41.47%	78.86%

5.3 Changes in liabilities arising from financing activities

	Group £'000	Company £'000
At 31 March 2020	70,547	2,774
Cash flows	(11,457)	(357)
Non-cash flow		
Transfer of Rollover Loan Notes 2021 from Equity	1,293	1,293
Conversion of 6% Unsecured Loan Stock 2021	(2,050)	(2,050)
Interest accrued in period	3,887	31
At 31 March 2021	62,220	1,691
Cash flows	(3,203)	3,616
Non-cash flow		
Borrowings included in liabilities directly associated with assets in disposal group held for sale	(54,824)	-
Cancellation of Rollover Loan Notes 2021 on sale of Acorn to Oaks Financial Services Limited	(1,293)	(1,293)
Lease liabilities	163	-
Interest accrued in period on lease liabilities	19	13
At 31 March 2022	3,082	4,027

Notes to the financial statements / continued

6 Net interest income

	2022 £'000	2021 £'000
Cash and cash equivalents	24	-
Debt securities	254	21
Loans and leases receivables	2,619	1,879
Interest income	2,897	1,900
Deposits from customers	545	-
Wholesale funding	285	586
Debt securities amortisation	258	28
Interest expense	1,088	614
Net Interest income	1,809	1,286

All revenue arises in the United Kingdom.

7 Fees and commission

	2022 £'000	2021 £'000
Fees and commission income	52	179
Lending expense	6	12
Regulatory fees	17	-
Fees and commission expense	23	12
Net fees and commission	29	167

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	2022	2021
COLG	6	10
Recognise Bank	70	38
Loans, lease and professions financing	2	7
Home reversion plans	4	7
Financial services intermediary	-	14
	82	76
Continuing operations	78	55
Discontinued operations	4	21
Total	82	76

Notes to the financial statements / continued

8 Employee numbers and costs continued

The aggregate payroll costs of these employees were as follows:

	2022 £'000	2021 £'000
Wages and salaries	8,063	6,670
Social security	1,052	661
Pensions	284	161
Share-based payments	259	182
	9,658	7,674

9 Other operating expenses

	2022 £'000	2021 £'000
Legal and professional costs	1,624	1,439
Irrecoverable VAT	604	390
Property costs	335	455
IT infrastructure and support costs	1,074	470
Outsourced costs	909	29
Other miscellaneous costs	936	638
Reduction in deferred consideration	-	(92)
	5,482	3,329

Auditor's remuneration	2022 £'000	2021 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	226	94
Fees payable to the Company's auditors for other services:		
The audit of subsidiaries pursuant to legislation	231	247
Audit related assurance services	-	4
	457	345

10 Finance expense

	2022 £'000	2021 £'000
Interest expense on lease liabilities	19	31
Finance expense on deferred consideration	-	5
	19	36

Notes to the financial statements / continued

11 Depreciation and amortisation

	2022 £'000	2021 £'000
Depreciation on tangible fixed assets ^(a)	82	62
Amortisation of intangible assets	204	52
Amortisation of right-of-use assets	343	281
	629	395

(a) The prior year charge excludes £4,000 relating to discontinued operations.

12 Net impairment (gain)/loss on financial assets

	2022 £'000	2021 £'000
(Decrease)/ increase in allowance for expected credit losses	(305)	21
Provision for goodwill impairment	-	117
	(305)	138

13 Tax expense

	2022 £'000	2021 £'000
UK corporation tax	-	-
Current year charge	-	-
	-	-

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% (2021: 19%). The differences are explained below.

Tax reconciliation	2022 £'000	2021 £'000
Loss before tax	(13,285)	(12,647)
At standard rate of corporation tax in the UK:	(2,524)	(2,403)
Effects of		
Items not deductible for tax purposes	59	1,572
Other tax adjustments	(141)	(543)
Movement on unrecognised deferred tax asset	2,606	1,606
Movement on deferred tax liability in discontinued operations	-	(232)
	-	-

Notes to the financial statements / continued

14 Dividends

No dividends were paid and recognised during either the current or prior year. The directors do not recommend payment of a final dividend (2021: nil).

15 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 28).

	2022	2021
Loss attributable to equity holders (£'000)		
Continuing operations	(13,645)	(10,119)
Discontinued operations	360	(2,760)
Total	(13,285)	(12,879)
Weighted average number of ordinary shares in issue ('000)	91,945	60,090
Basic and diluted earnings per share		
Continuing operations	(14.84)p	(16.84)p
Discontinued operations	0.40p	(4.59)p
	(14.44)p	(21.43)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.

16 Cash and cash equivalents

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cash at bank	37,522	9,593	650	962
Money market	-	4,900	-	-
	37,522	14,493	650	962

There was £50,000 restricted cash (2021: £50,000) within the Group cash balance of £37,522,000 (2021: £14,493,000) and no restricted cash within the Company cash balance of £650,000 (2021: £962,000).

Notes to the financial statements / continued

17 Investments

Company	Investment in Deep Discount Bonds £'000	Investments in subsidiaries £'000	Total £'000
Cost			
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
Additions in year	-	23,155	23,155
As at 31 March 2022	-	73,874	73,874
Provision for impairment			
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
Addition in year	-	-	-
As at 31 March 2022	-	4,036	4,036
Carrying amount			
As at 31 March 2022	-	69,838	69,838
As at 31 March 2021	-	46,683	46,683

(i) being interest accrued in year.

The investments in two non-core businesses, Milton Homes Limited and Acorn to Oaks Financial Services Limited, were reclassified as assets held for sale as at 31 March 2021. Acorn to Oaks was sold on 1 April 2021 and the sale of Milton Homes was completed on 10 March 2022 after regulatory approval for the change in control had been received (see note 24).

(a) Recognise Bank Limited (“Recognise Bank”)

The Company invested a further £22,950,000 in cash during the year, subscribing for A ordinary shares in Recognise Bank. In the previous year, the Company invested £34,586,530 in Recognise Bank.

The additional investment was made to support Recognise Bank’s capital base and facilitate its business development.

Share-based remuneration expense relating to share options issued to employees of Recognise Bank under the Share Option Plans set up in December 2020 has been included as part of the investment in Recognise Bank. The cumulative expense at 31 March 2022 was £226,000 (2021: £55,000).

The cost of the investment in Recognise Bank increased by £23,121,000 during the year and at 31 March 2022 was £67,794,000 (2021: £44,673,000).

Notes to the financial statements / continued

17 Investments continued

(b) Credit Asset Management Limited (“CAML”)

Following a further purchase, at the year-end the Company held 31% (2021: 30.2%) of the CAML 8% Redeemable Preference Shares in issue at a cost of £1,284,000 (2021: £1,250,000), which is included within Investments in subsidiaries.

As in previous purchases, the consideration of £34,000 paid was the sum of the face value of the shares and the accrued but unpaid dividend at the date of purchase.

No change in the provision for impairment has been made in respect of the ordinary shares (2021: £248,000) after a reassessment of the fair value of the overall investment in CAML as at 31 March 2022: their carrying amount is unchanged at £760,000 (2021: £760,000). No provision has been made in respect of the CAML 8% Redeemable Preference Shares which are carried at cost (see note 3(a)).

(c) Investments

Details of investments are as follows:

Company subsidiary undertaking	Nature of business
Recognise Bank Limited	UK licensed bank
Property & Funding Solutions Ltd	Bridging & development finance
Credit Asset Management Limited	Asset finance and loans
Professions Funding Limited	Professions funding

All the subsidiary undertakings are wholly-owned.

The subsidiary undertakings at 31 March 2022 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.

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.

(d) 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. During the year an amount of £1,000 (2021: nil) was received in respect of the legal case investments which has been included in other comprehensive income.

18 Debt securities

Debt securities represent Gilts and T-bills. The movement in debt securities may be summarised as follows:

Group	2022 £'000	2021 £'000
At 1 April	6,500	-
Additions	59,057	42,028
Redemptions/maturities	(65,300)	(35,500)
Amortisation of premium	(257)	(28)
At 31 March	-	6,500

There were no debt securities held by the Company.

Notes to the financial statements / continued

The table below presents an analysis of debt securities using the Fitch national short term credit ratings.

Group	2022 £'000	2021 £'000
F1+	-	6,500
At 31 March	-	6,500

19 Loans and leases receivable

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross loans and leases at 1 April 2021	17,502	606	2,275	20,383
Originations	98,096	-	-	98,096
Repayments	(14,353)	(408)	(103)	(14,864)
Write-offs	-	-	(1,298)	(1,298)
Transfer to Stage 1	196	(196)	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(77)	-	77	-
Gross loans and leases at 31 March 2022	101,364	2	951	102,317
Allowances for ECLs at 1 April 2021	375	53	1,959	2,387
Total movement in loss allowance during the year	(65)	(51)	(1,008)	(1,124)
Allowances for ECLs at 31 March 2022	310	2	951	1,263
Net loans and leases at 31 March 2022	101,054	-	-	101,054
Net loans and leases at 31 March 2021	17,127	553	316	17,996

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 £20,383,000. The loan portfolios of Recognise Bank and PFS increased by £6,476,000 to £12,156,000 at 31 March 2021, while the CAML/PFL lease and loan portfolio decreased by £8,416,000 to £8,227,000, including arrears. The net carrying amount of the Group's lease and loan portfolios, as offset by credit impairment of £2,387,000, was £17,996,000.

Finance lease receivables

The Group's finance lease receivables are part of loans and advances to customers and accounted for at amortised cost. The balance is analysed as follows:

Group	2022 £'000	2021 £'000
Gross investment in finance lease receivables:		
Less than 1 year	647	1,092
More than 1 year and less than 5 years	318	1,099
	965	2,191
Unearned future finance income on finance leases	(62)	(252)
Net investment in finance leases	903	1,939
The net investment in finance leases may be analysed as follows:		
No later than 1 year	598	917
Later than 1 year and no later than 5 years	305	1022
	903	1,939

There were no finance lease receivables in respect of the Company (2021: nil).

Notes to the financial statements / continued

19 Loans and leases receivable continued

Impairment

Group	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
As at 1 April 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
Movement in provision for impairment				
Transfer to Stage 2	3	(3)	-	-
Transfer to Stage 3	-	-	-	-
Specific provisions	-	-	38	38
New financial assets originated	149	-	-	149
Other movements	(217)	(48)	(35)	(300)
Write-offs	-	-	(1,011)	(1,011)
Total movement in loss allowance	(65)	(51)	(1,008)	(1,124)
As at 31 March 2022	310	2	951	1,263

The provision for impairment of loans and finance leases has been assessed as explained in note 3.

The overall reduction of £1,124,000 in the loss allowance over the year to 31 March 2022 reflects the changes in the Group's lease and loan portfolios. The reduction in Stage 3 provisions over the year solely relates to the write off of balances in the CAML/PFL portfolio. The increase in the Recognise Bank loan portfolio has resulted in an additional Stage 1 impairment charge of £149,000.

Company-loan to related party

The loan to related party of £3,156,000 (2021: £17,000) is a loan from the Company to the City of London Group plc Employee Benefit Trust (note 28).

Notes to the financial statements / continued

20 Property, plant and equipment

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Cost				
At 1 April	256	192	158	73
Additions	53	127	-	85
Disposals	(1)	(39)	-	-
Reclassify as assets held for sale	-	(24)	-	-
At 31 March	308	256	158	158
Depreciation				
At 1 April	106	96	66	29
Charge for the year	82	66	42	37
Disposals	-	(38)	-	-
Reclassify as assets held for sale	-	(18)	-	-
At 31 March	188	106	108	66
Net book value				
At 31 March	120	150	50	92

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

21 Intangible assets

Group	Goodwill £'000	Software licence & development £'000	Total £'000
Cost			
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
Additions in year	-	156	156
As at 31 March 2022	-	1,237	1,237
Accumulated amortisation and impairment			
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
Charge in year	-	204	204
As at 31 March 2022	-	257	257
Carrying amount			
As at 31 March 2022	-	980	980
As at 31 March 2021	-	1,028	1,028

Notes to the financial statements / continued

22 Leases

Right-of-use assets

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Property leases				
At 1 April	369	650	369	650
Additions	163	-	-	-
Amortisation	(343)	(281)	(281)	(281)
At 31 March	189	369	88	369

The property leases comprise the following:

Office premises were 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%.

During the year, office and residential premises leased by Recognise Bank in Leeds and London, were assessed under IFRS 16 and classified as right-of-use assets with corresponding lease liabilities.

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

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Property leases				
At 1 April	398	724	398	724
Additions	163	-	-	-
Interest expense	19	31	13	31
Lease payments	(450)	(357)	(384)	(357)
At 31 March	130	398	27	398
Amount due within one year	94	289	27	289
Amount due after one year	36	109	-	109

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

	2022 £'000	2021 £'000
Short-term lease expense	70	137
Low value lease expense	5	11
Aggregate commitments for short-term leases	1	6

Notes to the financial statements / continued

23 Other assets

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Amount owed by subsidiaries	-	-	1,417	837
Other debtors	341	412	228	349
Prepayments	671	515	236	281
	1,012	927	1,881	1,467

24 Discontinued operations and disposal groups

There were no Assets classified as held for sale at 31 March 2022.

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. As shown in the table below, the assets of each business, including the goodwill arising on consolidation, and the liabilities directly related to those assets were reclassified and included within current assets and liabilities at 31 March 2021 at their estimated realisable value:

	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

Notes to the financial statements / continued

24 Discontinued operations and disposal groups continued

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 was deemed to be a related party of the Company as he was then 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 held by the buyers, having been issued to them 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. The FCA approved the change in control on 25 February 2022 and the sale was completed on 10 March 2022 when the agreed consideration of £250,000 for the ordinary shares was 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.

The fair value of Milton Homes, after taking account of estimated disposal costs, was estimated at £8,450,000 as at 31 March 2021. The net amount realised was £8,770,000 as shown below:

	£'000
September 2021	
Cash paid by Milton Homes in respect of Deep Discount Bonds	1,200
Redemption of Deep Discount Bonds by Milton Homes from proceeds of new issue of bonds	7,846
March 2022	
Cash received for ordinary shares at completion	250
Costs of disposal	(526)
	8,770

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. A credit of £320,000 has been included in the results from discontinued operations for the year following the sale of Milton Homes.

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

The results of discontinued operations in both the current and prior year are shown in the table below. The prior year figures include Acorn to Oaks and Milton Homes which were reclassified as disposal groups as at 31 March 2021. As Acorn to Oaks was sold on 1 April 2021, the current year figures relate only to Milton Homes: they have been extracted from management accounts for the period up to disposal.

Notes to the financial statements / continued

	2022 £'000	2021 £'000
Revenue (see (a) below)	6,935	9,890
Cost of sales	-	(330)
Gross profit	6,935	9,560
Administrative expenses	(956)	(1,579)
Other income	-	11
Profit from operations	5,979	7,992
Finance expense	(3,852)	(3,863)
Profit before tax	2,127	4,129
Tax expense	(309)	(232)
Profit after tax from operations	1,818	3,897
Profit retained in disposal group for benefit of purchaser (see (b) below)	(1,818)	-
	-	3,897
Surplus/ (deficit) on remeasurement of assets in disposal groups	360	(6,657)
Profit/ (loss) from discontinued operations	360	(2,760)
(a) Revenue		
Milton Homes (i)	6,935	9,005
Acorn to Oaks (ii)	-	885
Total revenue	6,935	9,890
(i) Milton Homes		
Profit on disposal of investment properties	1,072	767
Gain on revaluation of investment properties	2,148	3,953
Profit on the disposal of equity release plan financial assets	313	315
Gain on revaluation of equity release plan financial assets	2,239	2,759
Equity transfer income arising under equity release plan financial assets	1,163	1,211
	6,935	9,005
(ii) Acorn to Oaks		
Commission	-	601
Fees	-	284
	-	885

(b) Under agreed Heads of Terms, a lock-box arrangement was in place for Milton Homes from 1 April 2021 until the sale was completed on 10 March 2022. This restricted the payments (both amount and type) which Milton Homes could make without the prior agreement of the ultimate purchaser. In addition, it was agreed all profits from 1 April 2021 should be retained in Milton Homes for the benefit of the purchaser. The net cash generated from 1 April 2021 was retained by Milton Homes.

At the date of legal completion of the disposal on 10 March 2022, Milton Homes had total assets of £68,563,000 and total liabilities of £61,712,000 to give total net assets of £6,851,000. This net asset figure includes £2,476,000 of cash after paying consideration of £1,200,000 in respect of the Deep Discount Bonds during the period.

Notes to the financial statements / continued

24 Discontinued operations and disposal groups continued

The figures for total assets and total liabilities above have been taken from the Milton Homes management accounts at the disposal date and do not reflect the adjustments made in the Group accounts when Milton Homes was reclassified as a disposal group as at 31 March 2021. The only underlying movement in Milton Homes net assets between 31 March 2021 and the disposal date of 10 March 2022 was the profit generated of £1,818,000.

As at the disposal date of 10 March 2022, the difference between the proceeds and the carrying value of the assets and liabilities on that date was £1,458,000, being the difference between the £1,818,000 profit arising in Milton Homes in the period and the £360,000 profit recognised.

The table below shows:

- (a) the estimated fair values of the net assets and liabilities of Acorn to Oaks and Milton Homes as at 31 March 2021 as included in the Group accounts, together with the net profit after tax for the period to the respective dates of disposal; and
- (b) the effect of the disposals on the financial position of the Group by reference to the estimated fair values of the net assets of Acorn to Oaks and Milton Homes as at the respective dates of disposal:

	As at 31 March 2021 £'000	As at disposal dates £'000
Goodwill	747	747
Property, plant & equipment	6	6
Investment properties	35,123	32,011
Financial assets – equity release plans	29,026	29,243
Trade and other receivables	622	616
Cash at bank	770	2,859
Trade and other payables	(782)	(788)
Other creditors	(83)	(70)
Borrowings	(54,824)	(51,892)
Deferred tax liability	(1,041)	(1,350)
Net assets and liabilities	9,564	11,382
Deep Discount Bonds (eliminated in the Group accounts)		
Carrying value at 31 March 2021	8,956	
Difference between amount paid on redemption and carrying value at 31 March 2021	90	
Paid on redemption	(9,046)	
Profit after tax for period to disposal of discontinued operations	1,818	
Net assets and liabilities at the respective disposal dates	11,382	11,382

Notes to the financial statements / continued

Consideration on sale of discontinued operations	£'000	£'000
Acorn to Oaks (as detailed on page 86)		1,114
Milton Homes (as detailed on page 86)		8,770
Net consideration		9,884
Being:		
Total consideration	10,449	
Costs of disposals	(565)	
		9,884
Net cash inflows on sale of discontinued operations	£'000	£'000
Cash received, excluding £1,200,000 paid from cash held in Milton Homes		7,956
Costs of disposal	(565)	
Cash and cash equivalents held in discontinued operations at disposal	(2,859)	
		(3,424)
		4,532

Notes to the financial statements / continued

25 Borrowings

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Loans	882	3,611	-	-
Preference shares of subsidiary	2,070	2,094	-	-
Rollover Loan Notes 2021	-	1,293	-	1,293
Loan from group company	-	-	4,000	-
	2,952	6,998	4,000	1,293

Loans at 31 March 2022 comprise block discounting loans of £882,000 made to Credit Asset Management Limited (2021: £2,748,000 block discounting loans to Credit Asset Management Limited and external funding of £863,000 to Property & Funding Solutions Ltd).

26 Deposits from customers

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Notice accounts	37,380	1	-	-
Term Deposits	57,614	1	-	-
	94,994	2	-	-

27 Other liabilities

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Trade payables	395	478	215	271
Other creditors	518	233	408	76
Other taxation and social security	652	224	342	23
Accruals	3,204	3,307	423	424
Dividends payable	1	1	1	1
	4,770	4,243	1,389	795

Notes to the financial statements / continued

28 Called-up share capital

Allotted, called up and fully paid	2022 Number	2021 Number	2022 £'000	2021 £'000
Ordinary shares of £0.02	106,813,313	80,727,119	2,136	1,615
			2,136	1,615

The Company did not hold any ordinary shares in treasury at 31 March 2022 (2021: nil). 5,174,643 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 31 March 2022 (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, and the premium of £3,684,248 arising on the issue of the shares being credited to Share premium.

The purpose of issuing these shares was to meet future share awards to Group employees. With the exception of these shares, the Company did not transfer any shares into or out of the EBT during the year (2021: nil). The fair value of shares held by the EBT at 31 March 2022 amounted to £3,156,000 (2021: £17,000). Subsequent to the year end 360,824 shares were transferred from the EBT to a former employee.

Following shareholder approval at a general meeting on 8 September 2021, the Company issued 18,916,667 ordinary shares at 60p each for cash of £11,350,000 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 issued subscription warrants which permit 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 21 October 2021 for the 1,008,180 Open Offer warrants.

On 8 December 2021 and 17 January 2022 respectively, the Company issued 24 and 321 ordinary shares at 69p each for cash following the exercise of warrants by shareholders. The premium of £231 arising on the issue of the shares was credited to Share Premium.

Costs of £889,000 (2021: £726,000) were incurred in relation to the issue of shares during the year. These costs have been offset against the Company's Share premium.

Notes to the financial statements / continued

28 Called-up share capital 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 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
Issued for cash on 6 September 2021	-	5,152,794	-	103
Issued for cash on 14 September 2021	-	18,916,667	-	378
Issued for cash on 5 October 2021	-	2,016,388	-	40
Issued for cash on 8 December 2021 on exercise of warrants	-	24	-	-
Issued for cash on 17 January 2022 on exercise of warrants	-	321	-	-
As at 31 March 2022	-	106,813,313	-	2,136

Share warrants

The following table summarises information on warrants which were outstanding at 31 March 2022: the warrants enable holders to subscribe for ordinary shares of the Company at 69p each over the 3 year period from the date of issue (see above). There were no warrants in issue at 31 March 2021.

	Number	£'000
As at 31 March 2021	-	-
Subscription Agreements warrants issued on 14 September 2021	9,458,333	-
Open Offer warrants Issued on 21 October 2021	1,008,180	-
Open Offer warrants exercised	(345)	-
As at 31 March 2022	10,466,168	-

Subsequent to the year end, the 9,458,333 Subscription Agreements warrants in issue have been exercised (see note 35).

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 was transferred from share capital to a capital reserve, which is not distributable to shareholders.

Notes to the financial statements / continued

29 Commitments

As at 31 March 2022, the holder of £2,069,914 8% Redeemable Preference Shares issued on 15 July 2015 by a subsidiary, Credit Asset Management Limited, was entitled to 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. Since the year-end, the Company has purchased these shares (note 35).

As at 31 March 2022, Recognise Bank Limited was contractually committed to make future loan advances of £19,700,000 (2021: £6,159,000) to customers.

As at 31 March 2022, the Company was contractually committed to issue up to 10,466,513 ordinary shares should the holders of the 9,458,333 Subscription Agreements warrants and 1,007,835 Open Offer warrants exercise their right to subscribe for shares at 69p in cash on or before 14 September 2024 and 21 October 2024 respectively, the third anniversary of the dates of issue. Since the year end, the Subscription Agreements warrants have been exercised by the holders (note 35).

30 Deferred tax assets and liabilities

	Group		Company	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Unrecognised deferred tax assets				
Differences between tax and accounting base of:				
Capital losses	250	190	250	190
Trading losses	6,818	2,993	-	-
Excess management charges	2,317	1,502	2,317	1,502
Timing differences	(8)	(15)	(3)	(9)
Total	9,377	4,670	2,564	1,683

No deferred tax assets or liabilities were recognised in the financial statements at 31 March 2022 or 31 March 2021, with the exception of a deferred tax liability of £1,041,000 that was included as part of the liabilities of Milton Homes, which was held as a disposal group at that date (note 24).

The unrecognised deferred tax assets have been calculated using a UK corporation tax rate of 25% (2021: 19%) as the rate of UK corporation tax is to increase to 25% in the financial year 2023-24. The calculation has been made on the basis of trading losses and excess management charges carried forward of £36,540,000 (2021: £23,660,000), capital losses of £1,001,000 (2021: £1,001,000) and timing differences of £32,000 (2021: £81,000). There is no time limit for the utilisation of these amounts.

31 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 £1,347,787 (2021: £823,554) of which £1,029,704 (2021: £794,776) was borne by the Company and £318,083 (2021: £28,778) by a subsidiary. The emoluments of the highest paid director were £918,614 (2021: £627,542). In addition, aggregate social security costs were £169,646 (2021: £101,433) of which £130,241 (2021: £98,067) was borne by the Company and £39,406 (2021: £3,366) 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 emoluments include salary, pension, compensation for loss of office, payment in lieu of notice and shares (see page 38 for further details).

Notes to the financial statements / continued

31 Related party transactions continued

The Company has agreements with its 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 was historically entitled to nominate a director to the board of the Company while it held not less than 10% of the voting shares of the Company and any 8% Redeemable Preference Shares issued by Credit Asset Management Limited. Although it has sold all its 8% Redeemable Preference Shares since the year end (note 35), an agreement giving the shareholder the right to nominate a director while it holds not less than 10% of the voting shares of the Company is expected to be put in place shortly. The nominated director was Paul 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.

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 (note 24). The disposal was a related party transaction as one of the purchasers, Jason Oakley, was a director of Recognise Bank until 31 March 2022.

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 (note 24). The sale, which is classified as a substantial transaction under AIM Rule 12, was conditional on receiving regulatory approval from the FCA. Consent to the change in control of Milton Homes Limited was given by the FCA on 25 February 2022 and the sale was completed on 10 March 2022.

As part of the arrangements, 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. A further amount of £250,000 was paid 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 28, two of the Company's major shareholders, Parasol V27 Limited and Max Barney Investments Limited (together the "Subscribers"), subscribed, in aggregate, £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. Subsequent to the year end, the Subscribers exercised the warrants issued to them (see note 35).

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:

- 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
- 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.

Notes to the financial statements / continued

Employee Benefit Trust (“EBT”)

The amount due to the Company from the EBT as at 31 March 2022 was £3,156,000 (2021: £17,000). Details of transactions with the EBT are disclosed in note 28.

The Company’s related party transactions included:

	Charged by Company in year £’000	Loan due by Company at year end £’000	Amounts due to Company at year end £’000	Provision for amounts due to Company at year end £’000
Year ended 31 March 2022				
Credit Asset Management Limited	116	(4,000)	1,809	(640)
Property & Funding Solutions Ltd	18	-	-	-
Recognise Bank Limited	655	-	248	-
Year ended 31 March 2021				
Credit Asset Management Limited	169	-	773	(640)
Milton Homes Limited	1,000	-	29	-
Property & Funding Solutions Ltd	244	-	-	-
Recognise Bank Limited	438	-	674	-

The amounts reported above include the Company’s income from:

- recharge of shared accommodation costs and management fees to each subsidiary company in both years
- preference dividends from Credit Asset Management Limited in both years
- ordinary dividend from Property & Funding Solutions Ltd in the prior year
- loan interest charged to Property & Funding Solutions Ltd in the prior year
- interest on the Milton Homes Limited Deep Discount Bonds in the prior year

The table provides an analysis by company of amounts charged by the Company and the year-end amounts owed to the Company in both years. While these amounts were disclosed in total within the previous year’s financial statements in notes 5 and 21 respectively, separate disclosure of the provision for amounts due to Company was not made in accordance with IAS 24. Additional analysis of the related party transactions for the previous year has been provided to make the disclosure consistent with the current year presentation.

The loan from Credit Asset Management Limited is interest free and is repayable on request after 30 June 2022.

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

Notes to the financial statements / continued

32 Share-based payments continued

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.

No options were granted during the year ended 31 March 2022. The number of options granted during the prior year were as follows:

	Date of grant	Number
Share Option Plan 2017	04/12/2020	843,750
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 ended 31 March 2021		2,347,626

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

	2022		2021	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at 1 April	76.45p	4,192,453	119.36p	2,144,827
Granted during year	-	-	38.98p	2,347,626
Lapsed during year	145.00p	(1,042,129)	90.00p	(300,000)
Outstanding at 31 March	53.80p	3,150,324	76.45p	4,192,453

Options granted in 2018 lapsed during the year as the Company's TSR over the period to vesting did not meet the minimum vesting requirements.

700,000 of the share options were exercisable at 31 March 2022 (2021: 700,000).

The exercise price of options outstanding under the Share Option Plan 2017 and Company Share Option Plan 2019 at 31 March 2022 was between 80p and 145p (2021: 80p and 145p). Options issued under the Long Term Incentive Plan are nil-cost options. The weighted average remaining contractual life of the outstanding share options was 6.9 years.

City of London Group plc's share price as at 31 March 2022 was 61.0p (2021: 77.5p). The average for the year to 31 March 2022 was 69.4p (2021: 90.3p).

Notes to the financial statements / continued

Options issued in 2019 and 2020 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	October 2017 Grant
Exercise price ^(a)	80.00p	145.00p	90.00p
Share price	88.00p	145.00p	90.00p
Contractual life (in days)	1,095	1,095	1,095
Volatility	32.00%	23.20%	13.30%
Annual risk-free interest rate	0.01%	0.41%	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 2015 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 the share option awards.

33 Net asset value

The consolidated net asset value per share is calculated by dividing the equity attributable to owners of the Company 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 28).

	2022	2021
Equity attributable to owners of the Company (£'000)	38,031	39,386
Number of ordinary shares in issue ('000)	101,639	80,705
Consolidated net asset value per share	37p	49p

Notes to the financial statements / continued

34 Reclassification of prior year figures

The tables below provide a reconciliation between the consolidated income statement, consolidated balance sheet and company balance sheet as originally presented in the financial statements for the year ended 31 March 2021 and the prior year figures in the financial statements for the current year, following reclassifications occasioned by a change in the presentation of the financial statements. As explained in note 2.1, the change in the presentation and classification of the financial statements reflects the change in the Group's business activities.

Consolidated income statement

The revised presentation of the consolidated income statement has not resulted in any changes in the results for the year ending 31 March 2021. The representation of the prior year consolidated income statement is as follows:

Consolidated income statement	Re-presented figures - 2021								
	2021 Annual Report £'000	Net interest income £'000	Net fees and commission £'000	Staff costs £'000	Operating expenses £'000	Finance expense £'000	Depreciation £'000	Net impairment loss on financial assets £'000	Discontinued operations £'000
Revenue	1,976	1,900	76						
Cost of sales	(13)		(12)		(1)				
Administrative expenses	(11,396)			(7,674)	(3,327)		(395)		
Other income	103		103						
Provision for bad and doubtful debts	(138)							(138)	
Finance expense	(651)	(614)			(1)	(36)			
Loss after tax from discontinued operations	(2,760)								(2,760)
Loss for the year	(12,879)	1,286	167	(7,674)	(3,329)	(36)	(395)	(138)	(2,760)

Consolidated balance sheet

The revised presentation of the consolidated balance sheet as at 31 March 2021 has not changed either the description or amounts of the following items within the consolidated balance sheet:

2021 Annual Report	£'000
Intangible assets	1,028
Property, plant and equipment	150
Right-of-use assets	369
Debt securities	6,500
Cash and cash equivalents	14,493
Assets in disposal groups classified as held for sale	66,294
Liabilities directly associated with assets in disposal groups classified as held for sale	(56,730)

Notes to the financial statements / continued

The following items have been reclassified as shown in the table below:

Extracts from Consolidated balance sheet	Re-presented figures - 2021						
	2021 Annual Report £'000	Loans and advances to customers £'000	Other assets £'000	Borrowings £'000	Deposits from customers £'000	Lease liabilities £'000	Other liabilities £'000
Non-current assets							
Loans	7,149	7,149	-	-	-	-	-
Finance leases	988	988	-	-	-	-	-
Current assets							
Loans	7,496	7,496	-	-	-	-	-
Finance leases	398	398	-	-	-	-	-
Trade and other receivables	3,071	2,144	927	-	-	-	-
Total assets (A)	19,102	18,175	927	-	-	-	-
Current liabilities							
Borrowings	(4,022)	-	-	(4,022)	-	-	-
Trade and other payables	(4,424)	(179)	-	-	(2)	-	(4,243)
Lease liabilities	(289)	-	-	-	-	(289)	-
Non-current liabilities							
Borrowings	(2,976)	-	-	(2,976)	-	-	-
Lease liabilities	(109)	-	-	-	-	(109)	-
Total liabilities (B)	(11,820)	(179)	-	(6,998)	(2)	(398)	(4,243)
As reclassified (A-B)	7,282	17,996	927	(6,998)	(2)	(398)	(4,243)

Notes to the financial statements / continued

34 Reclassification of prior year figures continued

Company balance sheet

The revised presentation of the Company balance sheet as at 31 March 2021 has not changed either the description or amounts of the following items within the Company balance sheet:

2021 Annual Report	£'000
Property, plant and equipment	92
Right-of-use assets	369
Cash and cash equivalents	962
Assets classified as held for sale	9,564
Borrowings	(1,293)

The following items have been reclassified as shown in the table below:

Extracts from Company balance sheet	Re-presented figures - 2021				
	2021 Annual Report	Loan to related party £'000	Investments £'000	Lease liabilities £'000	Other liabilities £'000
Assets					
Investment in subsidiary companies	46,683	-	46,683	-	-
Loans	17	17	-	-	-
Total assets (A)	46,700	17	46,683	-	-
Current liabilities					
Trade and other payables	(795)	-	-	-	(795)
Lease liabilities	(289)	-	-	(289)	-
Non-current liabilities					
Lease liabilities	(109)	-	-	(109)	-
Total liabilities (B)	(1,193)	-	-	(398)	(795)
As reclassified (A-B)	45,507	17	46,683	(398)	(795)

35 Post balance sheet events

Exercise of Subscription Agreements warrants

On 16 May 2022, the two holders of the Subscription Agreements warrants, Parasol V27 Limited and Max Barney Investments Limited, exercised their warrants to subscribe a gross amount of £6,526,250 in cash for 9,458,333 ordinary shares of 2p each which were issued at 69p each. The net proceeds of £6.45m have been invested in Recognise Bank to support its continuing growth and investment in technology.

8% Redeemable Preference Shares in Credit Asset Management Limited ("CAML")

On 16 May 2022, the Company acquired £2,069,914 8% Redeemable Preference Shares in Credit Asset Management Limited ("Preference Shares") held by HPB Pension Trust, an entity associated with Max Barney Investments Limited. The consideration of £2,179,704, which comprised the nominal value plus the amount of accrued but unpaid dividends on the Preference Shares, was satisfied by the issue of 3,158,992 new ordinary shares of 2 pence at 69p each. All the Preference Shares in issue are now held by the Company.

On 26 July 2022, the Company subscribed £3m for ordinary shares which were issued at par by CAML. On 27 July 2022, CAML redeemed the £3m Preference Shares in issue from the proceeds of this issue of ordinary shares. Following the redemption, CAML had only ordinary shares in issue, all of which were held by 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 UK adopted international accounting standards.

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 judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards 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 Group and 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

6 September 2022

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 2022 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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 2022 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 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 UK adopted international accounting standards 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:

- a detailed risk assessment to identify factors that could impact the going concern basis of accounting, including the effect of global macroeconomic uncertainties, rising inflation and post Covid-19 scenarios;
- a review of all Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) correspondence with the entity;
- evaluating Directors' going concern assessment including the company's capital and liquidity position and financial forecasts over the going concern period;
- a review of the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the PRA and the draft Internal Liquidity Adequacy Assessment Process (ILAAP) by our regulatory team of specialists to evaluate whether the ICAAP and ILAAP are in line with industry standards;
- evaluation of the stress testing performed by management including their severe but plausible downside scenario which included stress on the Group's capital position, in the event that no further capital could be raised during the year by challenging the impact that the stress scenario would have on the company's cash flow forecast and that the consideration is reasonable;
- substantiation of financial resources available to the Group by evaluating the recent situations where the Group was able to raise funds; and
- evaluation of the adequacy of the going concern disclosures made in the financial statements with reference to our understanding of the Group's current situation, obtained throughout the audit, and of its forecasts.

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 and the 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.

In relation to the Parent Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

Overview

		March 2022	March 2021
Coverage		100% (2021: 100%) of Group loss before tax 100% (2021: 100%) of Group revenue 100% (2021: 100%) of Group total assets	
Key audit matters	Revenue recognition	✓	✓
	Valuation of interests in property portfolio	n/a	✓
	Loan loss provisioning	✓	✓
	Valuation of interests in property portfolio is not a considered a key audit matter this year as the group's portfolio of home reversion plans Milton Homes Limited has been disposed of and is no longer part of the group.		
Materiality	Group financial statements as a whole Based on 1% of Total Group Assets	1,409,000	1,173,000

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. The significant components of the group are Credit Asset Management Limited ("CAML"), Recognise Bank Limited ("Recognise Bank") and Professions Funding Limited ("PFL"). Full scope audits are undertaken by the Group audit team on the financial information of the parent and the significant components; while for the insignificant component entity, Property & Funding Solutions Ltd ("PFS"), material balances were considered and scoped in for testing which was performed by the Group audit team.

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
<p>Revenue Recognition (Note 2.13 and Note 6)</p>	<p>The Group generates revenue from several distinct revenue streams.</p> <p>Revenue in Recognise Bank is in the form of interest income and fees on the underlying loan portfolio, and for CAML and PFL relates to interest charged on the loans and lease portfolio held.</p> <p>The different revenues are based on the automatic calculations within their loans and leases system.</p> <p>Given the diversity of revenue streams across the group and individual complexity of each of them, 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.</p> <p>PFS revenue relates to interest receivable on loans issued to clients. City of London Group ("COLG") revenue consists of management fees and other recharge costs due to COLG and preference dividends receivable.</p> <p>Revenue for COLG and PFS have been considered as a key audit matter given that they are material audit areas for the individual components.</p>	<p>Our audit testing included but was not restricted to:</p> <ul style="list-style-type: none"> • With the aid of computer assisted audit techniques we recalculated the total interest income on the full portfolio of loans and leases, for Recognise Bank, CAML and PFL. This included verification of the internal rate of return (IRR) used in the effective interest rate accounting through recalculation of fees income amortisation on the full portfolio and ensuring all relevant fees are included. • We tested the accuracy and existence of data processed through the system by agreeing a sample to underlying agreements. • For PFS, we manually recalculated the interest income and agreed inputs to underlying loan contracts and supporting documentation for the full population. • For COLG, we agreed the amounts recorded to the corresponding subsidiary accounts and selected a sample of management fees and recharged cost to supporting document. Preference dividends were agreed to supporting documentation. <p>Key Observations</p> <p>Based on our audit work performed, we did not identify any matters which would indicate that revenue is incomplete or the calculation is inaccurate.</p>

Independent Auditor's report / continued

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Loan loss provisioning (Note 2.8.1 (a) and Note 19)</p>	<p>As of 31 March 2022, the gross carrying value of Loans and advance to customers was £99.09m and the associated allowance for Expected Credit Losses (ECL) was £153k.</p> <p>Commensurate with the activities of the loan (for Recognise, CAML & PFL) and leasing business (for CAML & PFL), the Expected Credit Loss provision is subject to management judgement and a high degree of estimation uncertainty which could lead to a material misstatement.</p> <p>We identified areas of key judgements and estimates in respect of ECL relating to Recognise Bank, CAML & PFL, specifically:</p> <ul style="list-style-type: none"> In respect of Recognise Bank; the selection of the modelling methodologies, assumptions used in determining the probability of default, and the inputs and assumptions used relating to the forward-looking macroeconomic variables used in the model In respect of CAML & PFL, we consider the key areas of judgement to be the allocation of loans to stage 3 and the valuation of the specific provisions allocated against loans within the Stage 3 portfolio <p>Given the degree of judgement by management in determining the Expected Credit Losses we considered this to be an area of most significance in our audit and therefore a key audit matter.</p>	<p>We tested key controls around the determination of expected credit losses (ECL), including controls relating to:</p> <ul style="list-style-type: none"> review of the completeness and accuracy of the data output used by managements expert in the ECL model; controls over the origination, authorisation and onboarding of new loans and advances to customers which include controls over key data sets pertaining to individual loans like tenor and interest which feed into the ECL model; and review and approval of the ECL allowance by management to be included in financial statements. <p>In addition, together with our specialists & experts, we performed the following procedures to obtain assurance over accuracy and completeness of expected credit loss allowance.</p> <ul style="list-style-type: none"> We understood and critically assessed the appropriateness of the impairment policy (including management's definitions of default and a significant increase in credit risk), by reviewing the policy against the requirements of IFRS 9 Financial Instruments (IFRS 9) and industry standards We critically assessed the conceptual soundness of the methodology applied in the ECL model, to evaluate whether the methodology was compliant with IFRS 9 requirements, and tested the key assumptions and judgements, including, but not limited to, those made by management in determining Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) used in the calculation of the ECL allowance, by benchmarking to external sources.

Independent Auditor's report / continued

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Loan loss provisioning (Note 2.8.1 (a) and Note 19)</p>		<ul style="list-style-type: none"> • We assessed the judgments, concepts and weightings involved in management internal credit rating methodology which is a key driving factor for probability of defaults (PD) used in the model, by reviewing the credit approval process for a sample of loans and evaluating whether rating allocated is reasonable; • We assessed the reliability and appropriateness of historic and forward- looking information and macroeconomic variables used in the ECL model to determine the economic scenarios are relevant and reflective of the credit risks faced by the Bank by benchmarking with industry expected criteria; and • We assessed the reasonableness of scenario weightings and internal ratings of a sample of counterparties through independent credit reviews performed by the audit team. We evaluated whether the ratings associated are reasonable based on the circumstances of each credit review performed and whether the weightings associated to different scenarios are appropriate. <p>We also assessed the disclosures in financial statements, regarding the critical estimates and judgements involved in determining ECL to assess if it is in line with IFRS 9 and industry standards.</p>

Independent Auditor's report / continued

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Loan loss provisioning (Note 2.8.1 (a) and Note 19)</p>		<p>Credit Asset Management Limited & Professions Funding Limited</p> <ul style="list-style-type: none"> • We reviewed management's definitions of default and a significant increase in credit risk against the requirements of IFRS 9 and industry standards. • We challenged, sensitised and corroborated inputs to the expected credit loss model, including the staging of the assets and the data being used to generate probability of default and loss given default figures, taking into account market uncertainties and customer specific conditions. • We reviewed and challenged management estimates and judgements, including, but not limited to those made by management in determining Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) used in the calculation of the ECL allowance, by benchmarking to external sources. • We re-calculated all key formulae of the expected credit loss model using computer assisted audit techniques and performed data integrity assessments, including tracing back to supporting documentation on a sample basis.

Independent Auditor's report / continued

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Loan loss provisioning (Note 2.8.1 (a) and Note 19)</p>		<ul style="list-style-type: none"> • We performed testing on specific provisions against stage 3 assets, assessing provisions on a loan by loan basis. For each individual loan provision we obtained management's assessment of recoverability and justification for provision level, challenging these assessments and obtaining supporting documentation. We have compared and sensitised this individually and in aggregate to our own assessment of recoverability to determine appropriateness of provision levels. <p>Key observations</p> <p>Based on the evidence obtained, we concluded that the methodologies, modelled assumptions, and management judgements in determining the ECL allowance for Loans and advances to customers to be appropriate and compliant with the requirements of IFRS 9.</p>

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.

Independent Auditor's report / continued

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 2022	Mar 2021	Mar 2022	Mar 2021
Materiality	£1,409,000	£1,173,000	£57,000	£49,000
Basis for determining materiality	1% of Total Group Assets	1% of Total Group Assets	2% of 3-year average of gross expenditure	2% of 3-year average of gross expenditure
Rationale for the benchmark applied	A principal consideration of users of the financial statements in assessing the financial performance of the Group given the Group is that of an investment group.		This benchmark was selected to reflect the current nature of the entity being that of a funding vehicle for the rest of the group.	
Performance materiality	£1,057,000	£879,750	£43,000	£36,000
	75% of materiality		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, the level of anticipated errors and management's attitude to proposed adjustments, our judgement was that overall performance materiality for the Group should be 75% of materiality.			

Component materiality

For each component in the scope of our Group audit, the materiality is less than our overall Group materiality. For each significant component materiality was calculated as a percentage of either the component's revenue or net assets (2021: revenue or expenses) and ranged from £3,000 to £284,000 (2021: £13,600 to £1,045,000). In the audit of each component, we further applied performance materiality levels ranging from £2,000 to £213,000 (31 Mar 21: £10,000 to £784,000) to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £28,000 (31 Mar 21: 23,000). 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.

Independent Auditor's report / continued

Corporate governance statement

As the Group has voluntarily adopted the UK Corporate Governance Code 2018, we are required to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	<p>The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified is set out on page 23; and</p> <p>The Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate is set out on page 23.</p>
Other Code provisions	<p>Directors' statement on fair, balanced and understandable set out on page 35;</p> <p>Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 15;</p> <p>The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 35 and</p> <p>The section describing the work of the audit committee on page 34.</p>

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	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
Matters on which we are required to report by exception	<p>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:</p> <ul style="list-style-type: none"> • 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 Statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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 Group and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Companies Act 2006, Alternative Investment Market, UK adopted International Accounting Standards. Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), and relevant tax legislation.

We focused on laws and regulations with which non-compliance could give rise to a material misstatement in the Group financial statements. Our procedures included:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and of those charged with governance regarding their controls and processes in place to ensure compliance with the requirements of the respective authorities;
- made enquiries of management, internal audit and the audit committee, in respect of any instances of known or suspected fraud and any non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, as well as, reviewing correspondence with the FCA and PRA, in order to identify any non-compliance with laws and regulations and any known or suspected fraud.

We assessed the susceptibility of the financial statements to material misstatement, including fraud and considered the fraud risk areas to be within accounting estimates such as the expected credit losses, those applied in raising provisions, as well as, revenue recognition and management override of controls:

- in addressing the risk of fraud through management override of controls, testing the appropriateness of a sample of journal entries and other adjustments, by obtaining an understanding of the journals from management and, where relevant, agreeing these back to supporting documentation;

Independent Auditor's report / continued

- Performing relevant controls and substantive tests on interest income in addressing the risk of fraud related to revenue recognition (as documented in our Key Audit Matters above); and
- Assessing whether the judgements made in accounting estimates, including but not limited to those identified above in our Key audit matters related to Loan loss provisioning are indicative of potential bias.

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.

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
55 Baker Street, London, W1U 7EU
6 September 2022

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 12.30 pm on 6 October 2022 at the office of the Company at 2nd Floor, Augustine House, 6A Austin Friars, London EC2N 2HA to consider the following resolutions of which resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 and 13 will be proposed as special resolutions:

1. To receive the annual report and accounts for the 31 March 2022.
2. To re-elect Nyreen Bossano-Llamas as a director of the Company.
3. To re-elect Sherif Moorad Choudhry as a director of the Company.
4. To re-elect Richard Gabbertas as a director of the Company.
5. To re-elect Philip Jenks as a director of the Company.
6. To re-elect Louise McCarthy as a director of the Company.
7. To re-elect Paul Milner as a director of the Company.
8. To re-elect Ruth Parasol as a director of the Company.
9. To re-elect Simon Wainwright as a director of the Company.
10. To appoint PricewaterhouseCoopers LLP 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.
11. 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 2023, 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 £238,861.28, representing a maximum of 11,943,064 ordinary shares of 2 pence each, equivalent to approximately 10% of the capital of the Company in issue.

Special Resolutions

12. That, subject to the passing of resolution 11 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 £238,861.28 and this power shall expire, unless previously revoked, renewed or varied, at the conclusion of the next Annual General Meeting of the Company or on 30 September 2023, 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.
13. 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 11,943,064;
 - (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);

Notice of Annual General Meeting / continued

- (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 2023, 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
6 September 2022

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 43 and 44.
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 6 September 2022 (being the latest practicable date before the publication of this document) the Company's issued share capital consisted of 119,430,638 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 119,430,638.

Investor information and advisers

Financial calendar

We will hold our 2022 annual general meeting at the office of the Company at 2nd Floor, Augustine House, 6A Austin Friars, London EC2N 2HA at 12.30 pm on 6 October 2022.

Half-year results (available online only) December 2022

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.

www.recognisebank.co.uk

Registered office and general enquiries

6th Floor
60 Gracechurch Street
London
EC3V 0HR
Tel: 020 7550 0543
Company number: 01539241
Email: office@cityoflondongroup.com
Website: www.cityoflondongroup.com

Company Secretary

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

Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Nominated adviser and broker

Shore Capital Limited
Cassini House
57 St James's Street
London
SW1A 1LD

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

www.cityoflondongroup.com

www.recognisebank.co.uk

