Sancus Lending Group Limited

Annual Report and
Audited Consolidated Financial Statements
For the year ended 31 December 2023

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Sancus Lending Group Limited
For the year ended 31 December 2023
HIGHLIGHTS

Rory Mepham, Chief Executive Officer of Sancus Lending Group Limited, commented:

"We remain committed to returning Sancus to profitable growth. During the year we have continued to focus on getting our operating platform functioning efficiently in our three core markets, the UK, Ireland and Channel Islands. Our strategic focus is clear – to become a private credit and property focussed asset and wealth manager – in which management, our shareholders and funders have specific sectorial expertise and deal flow.

While we focus on credit quality and are on track to deliver our renewed strategies our reported operating loss of £9.9m, includes an Expected Credit Loss ("ECL") charge of £4.8 million predominantly against legacy loans written in 2019 or before. The carrying cost of these historic loans and an increased group borrowing cost accounted for the majority of the remainder of the loss.

During the year our residential property credit business achieved a 23% increase in pro-forma loans under management to £208m, including the impact of a joint venture we announced with Hawk Lending Limited in December 2023. This joint venture, in addition to strengthening our Channel Islands lending position will also improve our access to family office wealth. We also saw good growth in the Irish business.

The Sancus team remain committed to achieving the highest possible proceeds from the "workout" of legacy loans and we anticipate completing the majority of these workouts in 2024. We have had an encouraging start to the year. In the 5 months to May 2024 we generated revenues of £6.3m (including our share of the joint venture announced with Hawk Lending Limited). This compares to £4.6m for the 5 months to 31 May 2023. Our pro-forma Assets Under Management ("AUM") Is now £216m, a 7% increase on the equivalent year-end position (£202m) and we have an encouraging business pipeline. Although we expect to report an operating loss for the 6 months to 30 June 2024 we expect this will be substantially lower than the £3.8m operating loss for the 6 months to 30 June 2023. While the immediate economic outlook for the residential property market remains somewhat uncertain we are excited by the potential of the teams that we have assembled in the UK, Ireland and Channel Islands. We believe that these teams now have the platform from which to deliver profitable growth and accelerate our strategic progress."

Financial Highlights

- Group revenue increased by 23% to £12.3m (2022: £10.0m)
- Operating losses of £9.9m (2022: loss £4.7m)
- An ECL charge of £4.8m compared to £0.4m charge in 2022, reflecting required provisions against loans written by the previous management team
- Group PBT loss for the year of £9.1m (2022: loss £14.1m)

Operational Highlights

- Pro-forma loan book at year end £202m (2022: £169m), reflecting the impact of the Hawk Lending Limited joint venture
- Geographic focus remains unchanged: Irish loan book grew by 67% to £32.9m (2022: £19.7m), UK loan book largely flat at £63.0m (2022: £65.9m) with Channel Islands benefitting from impact of Hawk Lending Limited joint venture (pro-forma loan book of £103.1m vs £70.5m in 2022)
- New facilities written lower at £102m (2022: £122m), primarily reflecting the UK property market (2023 loans written: £37m vs 2022: £84m). Irish loans written up 153% at £46m

Strategic Highlights

- Completion of a joint venture with Hawk Lending Limited to form a new Jersey based private credit and debt advisory business. The joint venture also significantly enhances the Group's Channel Islands network of private wealth relationships.
- Further strengthening of the Group's capital flexibility:
    - Somerston purchased £3m of ZDP bonds held in treasury in April 2023
    - Somerston also subscribed for £5m of preference shares in Sancus Lending (UK) Limited, one of our subsidiaries, in April 2024
- The Group completed its withdrawal from Guernsey and Gibraltar in early 2023. As part of our withdrawal from Guernsey finance and treasury functions were provided by Carlton Management Services until March 2024. This contract has now come to an end and relevant staff have now been employed by Sancus.

Current Trading

- Revenues of £6.3m in the 5 months to 31 May 2024 (including our share of the Hawk Lending Limited joint venture) with all parts of the business reporting revenue growth. This compares to revenue of £4.6m for the 5 months to 31 May 2023.
- Pro-forma AUM of £216m vs £202m as at 31 December 2023. The pipeline of new business as we enter the 2nd half of the year is encouraging.
- Expectation of a materially lower operating loss for the 6 months to 30 June 2024 than for the 6 months to 30 June 2023 (£3.8m). Operating costs have remained broadly flat on a like for like basis and there have been no material changes/deteriorations year to date in credit quality.

Sancus Lending Group Limited
For the year ended 31 December 2023
CHAIRMAN'S STATEMENT

Introduction

Our structured strategic change programme is now well advanced and our focus throughout the year has been on actions that will position the Group for profitable growth as a private credit and property focussed asset and wealth manager. Demand for property private credit has been sporadic in our markets of the UK, Ireland and Channel Islands but the residential development sectors remains active. We believe that the highly selective policy of some traditional lenders will present an opportunity to write good quality new business.

Results and Strategic Progress

We reported a 23% growth in our revenue to £12.3m. The reported operating loss of £9.9m primarily derives from further write-downs on historic loans and associated carry costs as well as the increased interest cost of our group borrowings. The management team is committed to returning the Group to profitability and I am confident that their actions will achieve this goal. In December 2023 we announced a joint venture with Hawk Lending Limited, which will improve our positioning in the Channel Islands market and enhance our access to the family office wealth markets. Operationally, we completed exits from Guernsey and Gibraltar early in 2023 and we brought in-house the finance and treasury functions previously provided by Carlton Management Services under a service agreement.

Our People

Keith Lawrence has been appointed as the new Group Chief Financial Officer. As announced on 10 January 2023 Emma Stubbs, our former CFO, left the business at the end of March 2023 and Tracy Clarke acted as the Group's Interim Chief Financial Officer until 31 March 2024 when Keith was appointed. I appreciate the support and leadership provided by Tracy during this period but I am delighted that Tracy has agreed to return as a non-executive director of the Group.

Keith has over 30 years experience in the financial services industry. After qualifying as a Chartered Accountant with KPMG Keith worked in investment banking for 20 years, focussing primarily on financial services clients. Prior to joining Sancus Keith was the CFO of an innovative private equity backed residential construction business.

Capital Raise

In order to provide the Group with additional capital, £3m of ZDP shares held in Treasury were sold to Somerston, the Group's largest shareholder and in April 2024 Somerston subscribed for £5m of preference shares in Sancus Lending (UK) Limited, one of our core subsidiaries.

Dividend and Shareholders

The Group remains engaged in the recovery programme and therefore does not have the capacity to declare a dividend this year. The Board will revisit this policy as soon as cash flow and profitability permit.

On behalf of the Board, I would like to thank shareholders for their continued support and patience. Thanks to the continuing efforts of our team the Group has made good progress this year. While the Board does not underestimate the scale of the challenge ahead we believe we have the right strategy, systems and personnel to return the business to profitability and growth.

I look forward to reporting positive developments in the coming year.

Steve Smith
Chairman
28 June 2024

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

Our priority focus is to achieve profitability. Since joining the business in 2021, the management team and I have been focused on getting our residential property credit business operating efficiently across its core three markets (the UK, Ireland and Channel Islands).

In parallel with seeking to make continuous improvements to the Sancus property lending business and achieving profitability we now have a clear strategic focus. Over the next five years we intend to transform into an alternative asset manager, which focuses on private credit, property (equity & debt) and other complementary alternative strategies in which the management, our shareholders and funders have specific sectorial expertise and deal flow.

As at the end of 2023, the Group had £202m[(1)]of AUM of which £120m has been funded from private wealth markets in the Channel Islands. Over the coming years we aim to widen our private wealth network in the Channel Islands and to develop similar networks in the UK, Ireland and beyond. Additionally, once the residential property credit business has achieved profitability we will seek to diversify the operating platforms into complementary strategies.

A key element of the transformation to an asset manager will involve transitioning to funding its current and planned lending activities on an off-balance sheet basis. This is expected to be an iterative process with the ultimate goal to be funded entirely off-balance sheet in the coming years.

Our Strategy

The business continues to prioritise achieving profitability through delivering on the following strategic pillars as part of our transformation into an asset and wealth manager:

1. Focusing on revenue growth

In 2023 we achieved a £2.3 million (23%) increase in revenue to £12.3m. Our strong revenue growth during this period reflects our success in driving increased fee income, with increased co-funder and exit fees more than off-setting a decrease in transaction fees in 2023.

2. Achieving operating and cost efficiency

Our withdrawal from Guernsey and Gibraltar allows us to centralise most of our operations in Jersey and the UK and focus on achieving greater operating efficiency. Operating costs in the year amounted to £6.5m, £0.2m lower than in 2022 (2022: £6.7m) despite inflationary pressures. We are committed to achieving further expense savings and efficiency gains in future years.

3. Becoming a capital efficient business

Our disciplined capital management approach focuses on reducing the amount of own capital within loans and driving down the cost of funding. To strengthen our balance sheet, we continue to reduce our exposure to legacy loans. At the end of 2023, our own capital represented 1.4% of the total loan book, in comparison to 3.5% in 2022, helping us to improve the overall capital efficiency of the business.

We also made significant progress in lowering our cost of funding during this period, which we anticipate some of the benefits to be accrued in 2024 and future years, including:

- Offshore facility: Under the terms of the HLL transaction we have arranged a £25m facility to be provided by the Morton family with at an attractive cost of funds.
- Loan notes: We continued to grow our Loan Note program. During the year total Loan Note funding increased from £20.3m to £26.9m. The interest rate on these loan notes is below the institutional funding line secured by the Group.
- Private Wealth Co-funders: At 31 December, co-funders provided £56.4m of funding to us. We are committed to further enhancing our private wealth co-funder proposition.

Note (1): Pro-forma for effect of joint venture agreement announced on 5th December 2023 with HLL

As part of our transition to asset & wealth manager we continue to track our AUM. During this period, we have achieved £40 million (23%) increase in AUM to £202.1m on a pro-forma basis in 2023, partially due to completing a joint venture with Hawk Lending Limited ("HLL" of "Hawk") in Jersey on 5 December 2023 whereby the newly formed company will manage the respective loans books of Sancus Jersey and Hawk (further details about this agreement can be found in the operational updates below). Jurisdictional progress of AUM as follows:

- Pro-forma Channel Islands loan book as at 31 December 2023 was £103.1m (31 December 2022: £70.5m).
- Our Irish loan book grew by 67% to £32.9m and Irish fee income also increased strongly to £2.2m in 2023 from £1.6m in 2022. We are excited about the prospects for our Irish business.
- Given macro-economic uncertainties, we chose to carefully manage our UK growth and our UK book remained broadly flat at £63.0m (31 December 2022: £65.9m). We are committed to growing our UK business during 2024 and beyond.

The new facilities written this year (£102.3m vs £124.8min 2022), combined with the anticipated benefits of the HLL joint venture, gives us confidence in our ability to further increase our AUM in 2024.

Financial Summary

Group revenue increased by 23% year on year from £10.0m in 2022 to £12.3m in 2023 with the UK revenue up by 13% to £3.0m (2022: £2.7m) and Ireland up 40% over the course of 2023 to £2.2m (2022: £1.5m). We are confident that our HLL joint venture will allow us to drive Channel Islands revenue growth in the future.

We have reported an operating loss of £9.9m for the year (2022: loss of £4.7m). This primarily reflects a £4.8m charge for ECL under IFRS9 (2022: £0.4m), all of which was related to historic loans written. Operating costs in the year amounted to £6.5m, £0.2m lower than in 2022 (2022: £6.7m) despite inflationary pressures. We are targeting further operating savings in 2024. This loss was also impacted by the cost of the group level borrowings from our Bond and Zero Dividend Preference shares. In 2023 these Group borrowing costs amounted to £2.9m (2002: £1.8m).

The Group's net assets have reduced in the year from £7.2m at 31 December 2022 to net liabilities of £2.0m as a result of the operating loss in the year outlined above.

Group cash and cash equivalents was £5.0m at 31 December 2023 of which £1.6m related to Group operational cash and £3.4m was within Sancus Loans Limited.

Goodwill carried on the balance sheet as at 31 December 2023 was £nil vs £14.3m as at 31 December 2022. The change in carrying value reflects the transfer of the carrying value of our investment in Sancus Jersey following the sale of the business' goodwill, business information, moveable assets, records and third party rights to HLL in exchange for shares in HLL. This investment in the joint venture with HLL that we announced in December 2023 has been recognised separately on the Statement of Financial Position at a value of £14.3m. Notes 9 and 12 provide further details of our investments in joint ventures and goodwill.

We continue to manage down our on balance sheet loans (excluding those loans in Sancus Loans Limited). These amounted to £2.3m before IFRS9 provisions at 31 December 2023 compared to £8.2m at 31 December 2022 (£0.5m net of IFRS9 provisions at 31 December 2023 compared to £3.0m at 31 December 2022). Sancus Loans Limited had loans of £82.6m at 31 December 2023 (31 December 2022: £74.7m).

The Group's liabilities consist of the Bond instrument which still stands at £15.0m and ZDPs of £14.0m with a coupon of 9%. The Bond has a quarterly paid coupon of 7% p.a. and matures on 31 December 2025. During the year we issued £3.0m of ZDPs. The Pollen credit facility of £125m (2022: £75m) stood at £77.75m drawn as at 31 December 2023.

	2020	2021	2022	2023
Revenue (£ million)	£10.9m	£9.0m	£10.0m	£12.3m
Loans under management (£ million)	£171.0m	£142.0m	£169.0m	£202.1m
Operating loss (£ million)	(£5.5m)	(£10.2m)	(£4.7m)	(£9.9m)

Operational Updates

- **Hawkbridge joint venture**

On 5 December 2023 we announced that we had entered into a joint venture agreement with HLL to form a new Channel Islands based property private credit and debt advisory business – Hawkbridge Ltd. Both former Sancus and Hawk teams are now employed by the joint venture company. Trading as Hawk Lending the business is now in the process of writing its first deals. This joint venture with the Hawk family office has significantly deepened the Group's Channel Islands network of private wealth relationships, enhancing its co-funder and wholesale finance reach.

- **Loan book management and reduction in non-performing loans**

Continued emphasis has been placed on actively managing loans once the initial drawdown has been made. This has been particularly important against the backdrops of various market related pressures such as cost inflation. We are pleased to report that the percentage of loan book in recovery continues to reduce.

In the year ended 31 December 2023 we have had to recognise an ECL charge of £4.8m (31 December 2022: £0.4m), all of which relates to loans written by the previous management team.

- **Diversification of funding**

We continue to focus on increasing the funding capacity and diversifying the off-balance sheet funding sources of the business, on improved terms. We are seeking to work with a diversified mix of funders, both private and institutional, to match funders with loans meeting their varied risk and reward criteria.

Private Wealth Co-Funders remain one of our largest funding channels, with the majority of the Offshore loan book being co-funded. As at 31 December 2023 co-funders provided £48.2m of funding (31 December 2022: £66.9m). We continue to nurture relationships with the Co-Funder base, with these typically being Offshore private individuals and family offices. We expect that our HLL joint-venture will enhance our capabilities here.

Loan Notes, managed by Amberton Limited, remain an important funding instrument for the business. Loan Note 8, which was launched in January 2022 was £26.9m as at 31 December 2023 (31 December 2022: £3.0m). Loan Note 8 matures on 1 December 2026 and now has a coupon of 8% p.a. (payable quarterly), with Sancus providing a 20% first loss guarantee.

We continue to make use of an institutional funding line arranged by Pollen Street Capital ("Pollen Street") and which is designed to be complementary to our Co-Funder base and Loan Note program. At 31 December 2023 the total drawn was £77.75m (31 December 2022 £67.75m). While the Pollen Street facility continues to be strategic for the business and is generally utilised in relation to funding development loans we recognise that the availability, cost, diversification and flexibility of funding is key to achieving our growth ambitions.

We are continuing to minimise the amount of our balance sheet capital deployed to back loans. During the year this was broadly flat at £10.2m (31 December 2022: £10.2m).

- **Operational efficiency and planned management changes**

A focus on operational efficiency continued into 2023. We completed our exits from Guernsey and Gibraltar early in 2023 and at the end of 2023, the Group headcount was 30 (31 December 2022: 39). We believe the business is now well resourced to meet its objectives and are focussing on continuous improvement and development of our people.

As announced on 10 January 2023 Emma Stubbs, CFO, left the business at the end of March 2023 and Tracy Clarke was appointed as the Group's Interim Chief Financial Officer for a period of 12 months. Tracy, who was formerly a non-executive director of Sancus, stepped down as CFO on 31 March 2024 and re-assumed her responsibilities as a non-executive director of Sancus. Keith Lawrence, who joined the business as Finance Director in February 2024 assumed CFO responsibilities on 1 April 2024. Simultaneous with this the arrangement for Carlton Management Services to provide finance and treasury services to Sancus has come to an end and relevant staff have now been employed by Sancus.

ESG

We recognise our responsibility to incorporate sustainability practices through our business and our environmental, social and governance ("ESG") journey continued in 2023. We continue to use the materiality assessment to assist us in prioritising the key ESG issues we face and have commenced utilising a data-driven approach to support our progress in improving our approach to managing ESG factors.

We are pleased to publish our 2023 ESG report on our website. The report identifies the progress against our key objectives set in 2022, recognises the key challenges we have faced and summarises key data. An extract of the ESG report is included in this report on page 12.

Going Concern

The Company does not have any debt liabilities that fall due within the next 12 months. In April 2024 Somerston, the Company's largest shareholder, subscribed for £5m of preference shares in one of the Group's principal subsidiaries, Sancus Loans Limited, enhancing the Group's financial flexibility. Based on this, the Directors are of the opinion that the Company has adequate financial resources to continue in operation and meet its liabilities as they fall due for the foreseeable future.

Outlook

There are grounds for optimism. Given our strategic progress and focus, we believe the long term profitable growth potential for our business is clear. While, the immediate economic outlook, especially for the residential property market, remains somewhat uncertain, we expect that this is likely to lead to the continued retrenchment of major banks and other competitors from both SME and development financing, creating further opportunities for us. The long term trend of under supplied housing markets in each of our current markets provides a backdrop for an optimistic outlook. We continue to look forward to delivering profitability.

Rory Mepham
Chief Executive Officer
28 June 2024

Sancus Lending Group Limited
For the year ended 31 December 2023
PRINCIPAL RISKS, UNCERTAINTIES AND RELATED INTERNAL CONTROLS

The Group aims to carefully manage the risks which are inherent across its business activities in order to deliver an appropriate risk adjusted commercial return. The principal risks which the Group has consciously accepted in the pursuit of value creation are liquidity risk, regulatory and compliance risk, market risk, credit risk, strategic risk, and investment risk. With regard to the FinTech activities, exposure to investment risk is a factor of the strategic, liquidity, credit and operational risks assumed by the platforms in which the Group is invested.

This section on the Group's Principal Risks should be read together with the sections on the Group's Governance Framework, the operation of the Audit and Risk Committee, as well as Note 22 which describes the sensitivity of the Group's financial results to its Financial Risk exposures. These sections explain how these risks are being managed, monitored and governed.

The table below describes the Group's assessment of the principal risks being those which have the potential to have a significant impact on the Group's business model, future performance, solvency or liquidity.

Principal Risks	Internal controls mitigating Risks	Current Rating of Risks
Group		
1. Capital and liquidity Risk		**Medium**
Sancus's own funding is sourced primarily from the ZDP shares and the Corporate Bond (as detailed in Note 17). Expansion of lending and investment activities will be constrained to the extent of retained profits unless further sources of funding are secured.	Sancus has a Treasury Committee which meets once a month to manage its capital and liquidity position, and forecasts over several years to predict longer term funding requirements. Management of each of the operating companies balance their lending and funding and proposals to advance lending are typically contingent on sufficient funding having been secured in advance. The business seeks to maintain a material liquidity buffer at all times.	Completion of the fundraising and liability management exercise over the last couple of years has significantly improved the Group's capital and liquidity position. Management at Group and subsidiary level are focussed on raising additional on and off balance sheet funding in order to grow lending activities and support funding commitments.
2. Regulatory and Compliance Risk		**Medium**
As a Financial Services business, compliance with regulation is considered paramount within the Group, particularly with regard to the various regulators in the jurisdictions that Sancus operating entities conduct business within, the Financial Conduct Authority (FCA) Handbook (UK) and the various Anti Money Laundering (AML) regulations with the regulatory landscape in all jurisdictions continually evolving. The Company has chosen to comply with the provisions of the QCA Corporate Governance Code. Refer Page 23 for further detail.	All entities have developed and implemented appropriate policies and procedures relating to regulatory compliance and Anti Money Laundering. The Executive Risk Committee monitors these risks, and forthcoming regulations, with appropriate reporting from the Risk and Compliance Director and Money Laundering Reporting Officers. External, independent partners complete additional regulatory horizon scanning reviews and conduct periodic reviews of internal compliance including AML file reviews. The Company has an appointed NOMAD, Liberum, whom it liaises with regularly, to ensure compliance with the AIM rules, including the Market Abuse Regulations. Boards receive quarterly reports from the Risk & Compliance Director and where appropriate, Money Laundering Reporting Officers on compliance monitoring plans and any breaches identified.	The compliance framework as described is considered to be operating effectively and has recently been enhanced to increase oversight of all risks within the Sancus lending business through the Executive Risk Committee. Measures are in place to monitor clients against various databases to identify if any sanctions (including the recent increase in sanctions relating to the Ukraine/Russia conflict).

3. Market risk		**High**
The primary market risks are considered to be interest rate and foreign exchange risk. Given the nature of the business operations, with relatively short-term lending and currencies on lending opportunities being matched (or hedged) the exposure is considered to have limited impact on its position as a going concern. Foreign exchange risk primarily arises from the USD and Euro investments in the FinTech portfolio and Euro loans held in the Irish lending book.	Exposures to these risks are monitored regularly by the Sancus Treasury Committee and reported to the Board on a quarterly basis. These risks are identified and assessed at the time of entering into new transactions.	More information on the sensitivity to these risks is contained in Note 22. Macro-economics including increased inflation and bank base rate and euro margin fluctuations may have an effect on margin. The introduction of variable base rate loans and foreign exchange hedging are having an impact on mitigating the risk. With the increase in bank base rate, Co-Funders might look elsewhere to invest; however, variable rate Co-Funder returns should minimise this risk with investors continuing to receive attractive risk adjusted returns on asset backed lending.
4. Credit Risk		**High**
The Group has direct credit exposures through its on balance sheet lending and credit support. Indirect credit risk (potential losses to Co-Funders) could impact further business development.	Each operational entity has its own credit policies and procedures which are the subject of at least annual review by operating entity Boards. The respective Credit Committees take all credit decisions, monitor credit exposures on an ongoing basis and manage recoveries situations. Following Covid-19 tighter lending criteria has been implemented.	The IFRS9 provision increased substantially during 2023, reflecting the provisions required against legacy loans. The credit performance across of the rest of the Group's loan book remains resilient with actual losses incurred being less than 1% of loans advanced. See Note 22 (5) for further details. Increases in material costs, base rate and inflation have created downside risk through potential delays in loan repayments and reduced recoveries. Increased loan management oversight will help mitigate this risk.
5. Operational Risk – Execution of the Sancus strategy		**Medium**
The majority of Sancus's capital has been deployed into the Sancus Group. There is a risk that the planned growth of these businesses will not be realised primarily as a result of sub optimal levels of loan origination and funding.	The Board and Executive Committee of Sancus Group recognise the challenge of building the business to meet the financial targets and actively manage all aspects of the business on an ongoing basis. Plans and budgets are in place and performance against these is monitored regularly by the management team and the Executive Committee. There continues to be strong demand from both Borrowers and Co-Funders for the lending products offered across the business, and the risk adjusted returns available to Co-Funders.	By its nature, this risk remains an on-going area of focus for the Board, particularly with respect to business development in the UK and Ireland. The emergence of Covid-19 created downside risk on new loan origination levels although we believe this risk has now dissipated. IT capabilities for Sancus were further enhanced in recent years, providing Co-Funders with online interactive services and creating operational efficiencies.

6. Operational Risk – Operating entities		**High**
Loan funding is provided by a blend of institutional and co-funding models, with jurisdictional variations in the utilisation of these models. The limited availability of diverse funding presents an operational risk to continued growth of the lending model. With the recent focus on increasing the loan book and resourcing the operation effectively, there is a risk that management of the existing loan book is under resourced and key milestones in the loan lifecycle are missed. With reliance on various proprietary and third-party IT systems to conduct the lending operations, whilst ensuring these systems remain effective for the business, enable automation, are utilised to maximum effect, maintain data integrity and remain secure from external factors remains an ongoing challenge and presents potential risks.	The Executive Committee of Sancus Group are in active engagement with additional institutional funding lines to increase diversity and consider cost of funds and continue to evolve the co-funder model with the view to increase exposure across the lending operation. The lending operation is mitigating this through the introduction of technology improving oversight of key milestones and is actively engaged in acquiring additional resource for loan management. Introduction of new technology to compliment the existing operational framework ensures elements of these risks are mitigated with effective automation and data resilience. Continual development of the existing technology and enhancements to the back-office systems ensures the systems remain secure.	Oversight of these risks is completed by the Executive Risk Committee, with agreement on the mitigation necessary to minimise the risks and monitoring to ensure these controls are effective.
7. Investment risk – FinTech Ventures Platform Valuations		**Low**
Across the majority of the FinTech portfolio, the growth rates historically have been slower than originally anticipated and the business models have proved more capital intensive. Many of the FinTech platforms require additional capital to fund their ongoing growth to enable them to reach profitability. There remains a risk that some platforms may not be successful in the longer term, either as a result of lack of loan funding, lack of working capital funding or difficulties in establishing a competitive position in their chosen markets.	The Group has board observer rights on most of the remaining investee company boards and thus is able to participate in the strategic discussions and monitor the progress on each platform. The Group regularly monitors the progress of each business, with regular review of financial and KPI reporting. Quarterly valuations are conducted for all investments in platforms. These are based on a variety of factors including the pricing for any recent relevant capital transactions by the respective platform or using an appropriate valuation methodology.	As a result of the platforms taking longer to reach profitability, and given that several are seeking additional capital, the Board has valued our holding of the FinTech portfolio at Nil at the end of 2023 (2022: £Nil). The valuations are also subject to a number of material estimation uncertainties, refer to Note 22 (4).

Introduction and ESG ambition

We have been focusing on a data-driven approach and continue to utilise our materiality assessment to help prioritise the key ESG issues for our business and stakeholders. This section is an executive summary of Sancus' full ESG report, which will be made available on our website.

Our headline objectives are:

Environmental	Social	Governance
Promote the efficient use of resources by reducing the environmental impacts associated with our operations and business activities.	Enhance our approach to social impact by supporting our people and communities to thrive.	Strengthen our governance around decision-making, data and reporting to support our internal and external stakeholders in delivering our ESG goals.

We are committed to reducing our carbon emissions and have focused on improving the quality of data that allows us measure our impact in order to lay the foundations for targeted action on reduction. Beyond our operations, we acknowledge the influence we can have on emissions in the built environment and are also working with partners to understand the role we play in promoting sustainable practices.

We also continue our commitment to improving the communities we operate in through local economy investment and delivering voluntary programmes. Finally, we continue to work towards a more diverse leadership approach and maintain high ethical standards across our business through our governance practices.

This report measures our progress against these priorities, which we will continue to report on an annual basis going forward.

Our plan and priorities

In 2022, we noted we are at the beginning of Sancus' ESG programme. We have a team in place focusing on ESG and are supported by industry experts. The ESG team have the full support of the Executive team. Over the last 12 months, we have focussed on improving our data collection and reporting processes, including working to improve data collection from third-party suppliers and partners. We see this as a key enabler of our action on ESG. Employee health and wellbeing has also been a key focus, with multiple initiatives being taken over the last 12 months to continue building on our company culture and ultimately our business success. We will continue to ensure appropriate resources are available to help us achieve our ESG targets.

Our ambition is for ESG to become an integrated part of Sancus and be established in all our practices. We will leverage this to deliver positive impacts for our stakeholders while continuing to help drive long-term value and growth for Sancus.

The key overarching priorities for Sancus are set out below. We have also outlined specific progress to date and next steps across our ESG objectives.

1. Improving our ESG data maturity and addressing quick wins.
2. Strengthening our ESG capability by building expertise and embedding into wider business decision-making processes.
3. Establishing targets and accelerating action on our most material ESG topics.
4. Exploring ways of leveraging ESG in the delivery of business value to influence industry change.

Our key enablers

The key enablers for us to achieve our ESG objectives are:

- Data- continuing to improve our systems and processes ensuring quality data is obtained to maximise confidence in our measurement against targets and how we report.
- Employee engagement - placing our people at the centre of our ESG strategy to understand how our business impacts on them and how they can be empowered to have an impact on our business from an ESG perspective.
- Technology - integration of technology to support business scale and enhance delivery of our ESG strategy and data collection whilst streamlining the business operations.
- Training - continued education and training of key ESG matters with a focus on building employee engagement and confidence.

Our ESG journey

We summarise our ESG progress and commitments below.

Environment

Focus area	2023 Commitment	2023 Outcome	Challenges	2024 Commitment
Carbon Emissions	Identify, prioritise and implement ‘low hanging fruit’ measures to reduce our footprint.	Office relocation in UK has led to a new all renewable electricity energy contract, with lower energy consumption expected. Access to building energy use data has been built into the lease. Consolidation of the offshore operations into a single location will allow us to reduce energy consumption.	Despite progress and engagement, it can still be difficult to obtain carbon emission data from key service providers.	Encouraging all our office providers to switch to renewable electricity. Improve quality and granularity of data being captured through continued engagement with suppliers and improved internal reporting. Use improved granularity to consider which areas we can have an impact on emissions reduction.
	An enhanced view of our carbon footprint through improving its scope and data quality.	Data quality has improved which will start allowing us to focus on key areas for emission reduction. We want to further improve our data quality.		
Waste and Circularity	Identify waste hot spots and opportunities for reduction.	Through employee engagement and the office updates, we have implemented improved waste collection. We are considering ways to further reduce waste reduction (e.g. reducing single use plastic usage). Greater engagement with office providers and capture of improved data.	There are constraints in obtaining quality and granular waste data from our service providers.	Improve recycling provisions at Jersey office. Continue employee engagement for additional waste management and usage initiatives. Identify measures to improve data quality through improved engagement with service providers to identify hotspots for simple improvements in waste management.

Environment (continued)

Focus area	2023 Commitment	2023 Outcome	Challenges	2024 Commitment
Business Travel	Establish a sustainable business travel policy.	We have not been able to implement a sustainable business travel policy given data constraints and business priorities.	Steps have been taken to improve how we capture data regarding our business travel and are being implemented during 2024. This includes an updated expense process to calculate business mileage (air, road, rail).	Improved collection of g business travel data will allow us to identify opportunities for reducing our impact and enhance sustainable business travel. This will include the use of more sophisticated expense management technology. Develop high-level sustainable business travel policy with a view to enhance the policy in the future.
Climate Resilience	Deeper understanding of what climate resilience means to Sancus.	We have identified some areas and plan to make further progress.	Although we have made some progress we need to further enhance our understanding here.	We have embedded high-level questions into the Initial Credit Assessment, which is the core initial document for considering loan proposals for borrowers. Identify and assess how Sancus can fully understand and incorporate climate resilience in its day-to-day business.

Social

Focus area	2023 Commitment	2023 Outcome	Challenges	2024 Commitment
Community building	A clearly defined set of social value measures (using National Themes Outcomes and Measures (“TOMs”)) for community building.	We aim to capture quantitative data through TOM’s framework in 2024. Employee volunteering hours included in staff handbook. Employees have engaged within the community.	We need to better understand the TOM’s framework and how we can score against it. Some progress has been achieved through employee engagement.	Support the ESG team to better understand TOMs framework better to allow clearer reporting for 2024 which is aligned with the principles of TOMs.
Diversity, equity and inclusion (DE&I)	DE&I metrics for gender diversity, gender pay gap and ethnic representation have been recorded and reported on.	An informed view of our performance across key DE&I metrics.	Due to the nature and scale of the current operation and staffing levels we have limited influence on DE&I.	Collect data on socioeconomic diversity of our people, following guidance from the Social Mobility Commission, to benchmark ourselves against the wider industry.

Social (continued)

Focus area	2023 Commitment	2023 Outcome	Challenges	2024 Commitment
Employee health and wellbeing	An informed view of our employee health and wellbeing to inform future initiatives.	Regular wellbeing initiatives promoted to all staff. Additional MHFA's trained during 2023. Mental Health at Work employee training provided as part of the annual training cycle with 100% of employees having completed the module.	The impact and effectiveness of our health and wellbeing initiatives is difficult to measure given the size of our business.	Conduct further, targeted employee engagement surveys to identify important insight on how we are progressing. Continue delivering well-being initiatives to our staff and identify areas for improvement. Identify how to measure success through the TOM's framework following upskilling of the ESG team.
Local economic growth	A clearly defined set of social value measures (using National TOMs) for local economic growth.	Sancus believes the nature of development projects which are funded across the group naturally supports local jobs and community growth. We are not yet in a position to fully substantiate this claim and are endeavouring to improve our capability. Sancus provides funding for developments which help increase housing availability and creating local economic growth.	Given the size of our business this is difficult to report on quantitatively.	Build capacity to improve, measure and report on local economic value across our operations and align with National TOMs measures where relevant.

Governance

Focus area	2023 Commitment	2023 Outcome	Challenges	2024 Commitment
Ethical business practices	Promote ethical business practices throughout supply chain.	Has been embedded through Anti-bribery, Anti money laundering and Modern Slavery policies. Ethics policy has been drafted for Implementation early 2024. Annual training now includes ESG and Mental Health subjects. High level ESG data being collected on the Initial Credit Assessment of new loans.	Many of the borrowers are small businesses with no published ESG strategy and limited resource to implement such strategies.	Increase engagement with new borrowers to promote ESG considerations and capture how the development can meet certain criteria. Continue promoting the importance of ethical business practices and providing additional staff training to support this.
ESG management	Embed ESG into risk and data management approach and have grown ESG awareness and knowledge.	ESG is a discussion point in board meetings and a growing understanding is present. Our largest institutional funding partner requires ESG key metrics and an understanding of our ESG strategy and has the ability to either offer discount or increase rates depending on scoring, which enhances their own ESG strategy. In 2023 we achieved a discount	As a lean business operating in a challenging environment, completing priorities need managing to ensure we can meet all the needs of stakeholders, including ESG.	Our newly appointed CFO, Keith Lawrence, has joined the ESG Team driving top-level engagement and enhancing the board oversight of our strategy.
Responsible investment	ESG is integrated into our funding decisions.	ESG has been embedded into lending decisions through capturing high-level client ESG strategy data.	Lack of ESG focus for developers, which are typically small businesses with limited resources and understanding of ESG matters.	Improve education of key ESG matters with borrowers. Continue to improve data capture and enhance reporting to identify successes and opportunities.
Transparency and reporting	Explore alignment of ESG reporting and disclosure with relevant industry frameworks.	Review of external ESG landscape performed allowing greater understanding of reporting and disclosure requirements.	There is still opportunity for the ESG team to improve their understanding and communicate key learnings to management.	Exploration of the IFRS Sustainability Disclosure Standards to evaluate potential implications for our ESG strategy and reporting and identify capability gaps.

Task Force on Climate-related Financial Disclosures ("TCFD") Statement - 2023

Governance - Sancus' governance around climate-related risks and opportunities.

Describe the board's oversight of climate-related risks and opportunities.

As set out in the Corporate Governance section, in addition to its requirement to comply with the AIM Rules, Sancus has chosen to comply with the QCA Corporate Governance Code. The Sancus Board has overall responsibility for business strategy, including setting the strategy, approach and monitoring its implementation. The Board receive quarterly reports from Executive Management, which includes matters relating to environmental, social and governance ("ESG") including climate-related risks.

The CEO is responsible for delivering the business strategy including ESG and climate-related risk matters and is present at board meetings including those where ESG and climate-related matters are discussed, with these discussions helping to steer the overall strategy.

Describe management's role in assessing and managing climate-related risks and opportunities.

Day-to-day management of ESG and climate-related matters has been delegated to the Executive Management, with representatives from across the business as members of the ESG Team, who review ESG and climate-related data and issues and provide recommendations to the Executive Management for new initiatives, activities and overall strategy for ESG and climate-related matters.

Strategy - Impacts of climate-related risks and opportunities on the business, strategy and financial planning.

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Sancus considers risk and opportunities in the short, medium and long term:

Short: 0-1 years   Medium: 1-5 years   Long: 5-10 years

Sancus' core business model is the provision of short-term funding for property development and bridging. Climate-related risks and opportunities potentially impact the business model in several ways. The company has identified climate-related risks across the TCFD's two major categories: (1) risks related to the transition to a low-carbon economy and (2) risks related to the physical impacts of climate change - summarised in Table 1 below.

Through this, Sancus will be able to assess climate-related risks and also consider what climate-related opportunities are available, how these opportunities can be developed within the overall strategy and will report on the short-, medium- and long-term objectives as we progress.

Our ESG report provides details of the key emissions data across Scope 1, Scope 2 and Scope 3 greenhouse gas emissions ("GHG"), from across the various offices and staff locations the company operates from. We are working with our key suppliers to improve the quality of data available and which will allow us to better measure GHG. Presently, and due to this, Sancus has not defined a strategic target for reducing emissions. However, through initiatives such as the consolidation of office locations in 2023 and our plans for a sustainable business travel policy, we believe there is scope to achieve quick wins to reduce emissions over the medium-term. We will focus on achieving reduction through continued engagement with key providers over the long-term.

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Sancus continues to develop in responding to its requirements under TCFD and, currently, does not have the capability and resources to perform climate scenario analysis as part of the reporting exercise. We recognise the importance of incorporating climate scenario analysis into our strategic planning to ensure sustainable growth and resilience. To address this, we are developing a comprehensive plan to build our internal capabilities, including investing in training and improving our data capture systems. We anticipate that we will be fully equipped to conduct thorough climate scenario analyses within the next 3-4years.

Table 1a - Summary of Sancus' climate-related risks

Type		Climate-related risk	Potential financial impact	Timeframe
Transition risks	Policy & legal	Change in building regulation policy, such as imposing minimum EPC/BER ratings.	Increased build cost for clients to meet improved policy standards.	Medium
	Market	Change in home purchaser preferences, such as a preference towards more energy efficient homes.	Reduced demand for sale of older buildings, resulting in extended exit, or inability to sell homes.	Long
	Reputation	Reputational risk, such as increased scrutiny from co-funders and investors.	Reduced availability of appropriate funding lines or increased cost of funds to meet investor expectations	Medium
Physical risks	Physical risk	Increased severe weather events as a result of global warming and changing climates, such as increased flood risks.	Reduced asset values due to changes in flood risk assessments by local authorities/Environment Agency.	Medium/Long
	Physical risk	Increased severe weather events as a result of global warming and changing climates, such as increased drought and erosion risks.	Reduced asset values due to changes in subsidence assessments by local authorities/British Geological Survey.	Medium/Long

Table 1b - Summary of Sancus' climate-related opportunities

Type	Climate-related opportunity	Potential financial impact	Timeframe
Products	Develop lending products incentivising borrowers to meet high energy efficiency ratings.	Increased demand for built assets resulting in improved exit strategies.	Med
		Increased interest from co-funders and investors helping maintain or decrease cost of funding.	Med

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (Continued)

Risk Management - Climate-related risk management and metrics

Describe the organisation’s processes for identifying and assessing climate-related risks.

Sancus continues to develop its strategy for identifying, assessing and managing climate-related risks and opportunities. Our ESG Team, reporting to the Executive Management and Board are responsible for our overall ESG risk management framework, including identifying and assessing climate-related risks and providing reporting to the Board. Our credit-risk processes include assessment of known climate related risks (e.g. flood risk).

Sancus recognises further investment in training and support for the ESG Team is fundamental in building out this strategy over the medium term.

Describe the organisation’s processes for managing climate-related risks.

Sancus recognises further investment in training and support for the ESG Team is fundamental in building out a strategy for managing climate-related risks over the medium term and is committed to providing the resource necessary to achieve this.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.

Through the Executive Risk Committee, Sancus intends to further integrate climate-related risk management into the overall risk management strategy within the next 12-24 months.

Metrics and Targets

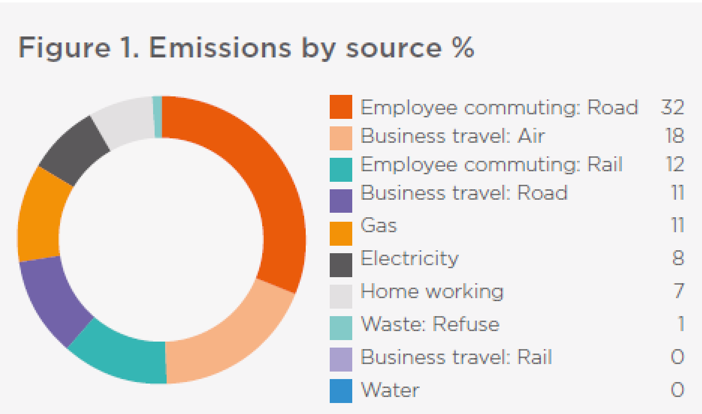
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Presently, the focus has been on capturing quality data relating to the energy usage of the operations with a view to developing strategies for carbon emissions reduction. This data is focused on GHG emissions, using the GHG protocol for understanding Scope 1, Scope 2, and Scope 3 emissions.

2023 GHG Emissions data

	tCO2e	%
Scope 1	3.954	9.40
Scope 2	2.449	5.82
Scope 3	35.649	84.77

Emissions by source



Capturing and understanding quality emissions data is key to developing a carbon reduction strategy. Despite progress and engagement, it can still be difficult to obtain carbon emissions data from key service providers. Data quality has improved over the last 12 months. However, improvements in data capture from key providers is pivotal in enabling Sancus to identify opportunities for reducing GHG emissions over the medium to long term, which is part of the overall ESG strategy.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Sancus recognises that it operates in the UK which has made a commitment to transition to a net zero economy (under the Climate Change Act 2008 (Order 2019)). As part of our annual ESG and GHG emissions reporting exercises, we have considered our level of maturity in being able to develop and disclose a climate transition plan.

At present, Sancus is still building out and developing its capability for GHG emissions calculations with the intention of developing a realistic carbon reduction plan. Principally, we are still addressing key gaps in data availability and quality that allow us to build a complete picture of our GHG emissions as a company, therefore impairing our ability to set a robust baseline for emissions reduction targets. We plan to address data availability and quality issues through further engagement with key providers and aim to have established a science-based net-zero target in the next coming years.

Summary

Whilst Sancus is committed to addressing climate-related risks and understands the importance of becoming a more responsible and sustainable business, we acknowledge we are in the early stages of developing our overall climate strategy and through the ESG programme, will continue to assess and refine the strategy, recognising that ESG and climate-related risk management is an on-going commitment, rather than a one-time initiative.

Board of Directors and Executive Management Team

Introduction

The Board recognises the importance of a strong corporate governance culture.

The composition of the Board is the subject of ongoing review. Somerston Group had the right to nominate a candidate for appointment to the Board and presently exercises this right via the appointment of Tracy Clarke (bio noted below).

Board of Directors

The Company operates a unitary Board Structure, comprised of both Executive and Non-Executive Directors. Biographical details of the Directors can be found below. The terms of Directors' appointments are available from the Company Secretary.

On joining the Board, any new director will have received an induction through face to face meetings with existing directors, senior management and the Company Secretary.

The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company, its corporate governance responsibilities, and addressing any training or development needs of the directors.

Steve Smith – Independent Non-Executive Director

Mr Smith was formerly an Executive Director and the Chief Investment Officer of The British Land Company plc, the FTSE 100 property investment trust, with responsibility for the group's property and investment strategy, standing down in 2013. Prior to this, Mr Smith was Global Head of Asset Management and Transactions at AXA Real Estate Investment Managers, where he was responsible for the asset management of a portfolio of assets valued at more than €40 billion on behalf of life funds, listed property vehicles, unit linked and closed end funds. Prior to joining AXA in 1999, Mr Smith was Managing Director at Sun Life Properties for over five years. Over the last decade, Mr Smith has worked extensively in governance related roles for a number of property focused organisations. Mr Smith is Chairman of the Board and is a member of the Audit and Risk Committee and Remuneration and Nomination Committee. Mr Smith was appointed to the Board on 11 May 2021. He is resident in the UK.

John Whittle - Independent Non-Executive Director

Mr Whittle has a background in large third party Fund Administration. He has worked extensively in high tech service industries and has in-depth experience of strategic development and mergers/acquisitions. He has experience of listed company boards as well as the private equity, property and fund of funds sectors. He is currently Chairman of Starwood European Real Estate Finance Limited and Director and Audit Chair of The Renewable Infrastructure Group Ltd ("TRIG") (both listed on the main market of the London Stock Exchange) and Director and Audit Chair of Chenavari Toro Income Fund Limited (admitted to trading on the Specialist Fund Segment of the London Stock Exchange). Mr Whittle, a Chartered Accountant, has also served as Finance Director of Close Fund Services Limited (responsible for internal finance and client financial reporting), Managing Director of Hugh Symons Group PLC and Finance Director and Deputy MD of Talkland International Limited (now Vodafone Retail).

Mr Whittle was appointed to the Board, the Audit and Risk Committee and the Remuneration and Nomination Committee on 23 September 2016, after having served as an Alternate Director since December 2015. He is resident in Guernsey. Mr Whittle is Chairman of the Audit and Risk Committee, and of the Remuneration and Nomination Committee.

Tracy Clarke – Non-Executive Director

Ms Clarke is a representative of the Somerston group of companies ("Somerston"), the Company's largest shareholder which has the right to nominate one individual for appointment to the Board. Ms Clarke joined Somerston in 2016 and acts as the Group's Chief Operating Officer. Ms Clarke is also Managing Director of Carlton Management Services Limited, a licensed Jersey trust company business. Prior to joining Somerston, Ms Clarke worked for Deutsche Bank in Jersey and Zurich for over 10 years, specialising in financial Intermediary and external asset manager business. Ms Clarke is a Fellow of the Institute of Chartered Accountants in England and Wales and holds the CISI Investment Advice Diploma. Ms Clarke was appointed to the Board on 8 March 2022 and is a member of the Company's Audit and Risk Committee and Remuneration and Nomination Committee.

Rory Mepham – Executive Director

Rory joined Sancus in January 2021, assuming the role of Interim CEO on 1 July 2021 and was then confirmed as CEO and board member on 23 November 2021. Joining Sancus from The Somerston Group where he managed their European property platform which includes businesses in the hotel, retail, land development, student housing and PRS sectors. Rory has over 20 years experience in the UK and European property market. He has spent his career working with institutional capital and has an extensive track record in M&A, corporate finance, capital raising, debt finance, investment management and property development. Rory holds an MBA from the Cranfield School of Management, a BSc (Hons) in Land Management from the University of Reading and qualified as a member of the Royal Institute of Chartered Surveyors (MRICS).

Executive Management Team

Rory Mepham – Chief Executive Officer
See above.

Keith Lawrence – Chief Financial Officer

Keith was appointed to the Executive Management Team on 1 April 2024. Keith has over 30 years experience in the financial services industry. After qualifying as a Chartered Accountant with KPMG Keith worked in investment banking for 20 years, focussing primarily on financial services clients. Prior to joining Sancus Keith was the CFO of an innovative private equity backed residential construction business. Keith holds a BA(Econ)(Hons) in Accounting and Finance from the University of Manchester. Keith joined Sancus in February 2024.

James Waghorn – Chief Investment Officer

James was appointed to the Executive Management Team on 8 March 2022. James has over 14 years experience in the UK and European property market. James has extensive experience across the corporate real estate, investment and property development sectors. For the past 6 years James has led Somerston's land development business, a strategic land and development focused business with capacity for in excess of 2,350 units within its strategic portfolio. James holds a BSc in Investment and Finance in Property from the University of Reading and is MRICS accredited. James joined Sancus in January 2021.

GOVERNANCE FRAMEWORK

The Board is committed to maintaining high standards of corporate governance throughout the Company's operations and to ensuring that all of its practices are conducted transparently, ethically and efficiently. The Board believes that scrutinising all aspects of the Company's business and reflecting, analysing and improving its procedures will minimise the potential for downside risk and will preserve shareholder value. In compliance with the AIM Rules for Companies, published March 2018, the Company has chosen to comply with the provisions of the QCA Corporate Governance Code (the "QCA Code"). The Company is also mindful of the provisions of the Finance Sector Code of Corporate Governance, as amended by the Guernsey Financial Services Commission in November 2021.

The Board believes that applying the principles and reporting against the provisions of the QCA Code accurately reflects the nature, scale and complexity of the business and enables the Board to provide information to shareholders on its activities in accordance with the principles set out in a recognised governance framework. Furthermore, through applying the relevant provisions the Company is better positioned to mitigate downside risk and in doing so, preserve long-term shareholder value. The Company's corporate governance framework has been based on these principles and is designed to deliver the Group's strategy, and the application of such principles to the operation of the Board ensures that its decision-making processes remain focussed on the long-term sustainable success of the Company.

As at 31 December 2023, the Company complied substantially with the relevant provisions of the QCA Code and it is the intention of the Board that the Company will comply with these provisions throughout the year ending 31 December 2024, save with regard to the following:

- The appointment of a Senior Independent Director: Given the size and composition of the Board, the Board does not consider it is necessary to appoint a Senior Independent Director. The Board considers that all the independent Directors have different qualities and areas of expertise on which they may lead where issues arise and to whom concerns can be referred.

- Internal audit function: The Board has considered the need for an internal audit function and is satisfied that the compliance policies, procedures and reporting mechanisms in place throughout the group are sufficient, and that implementing a separate internal audit function would be unnecessary. This requirement is assessed annually by the Audit and Risk Committee.

How we apply the QCA Code

The Company has established specific formally constituted committees and implemented certain policies, to ensure that:

- It is led by an effective Board which is collectively responsible for the long-term sustainable success of the Company and establishes a culture whereby the tone is set from the top which is consistent with the objectives, strategy and business model of the Group.

- The Board and its committees have the appropriate balance of skills, experience, independence, and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively.

- The Board establishes a formal and transparent arrangement for considering how it applies the corporate reporting, risk management, and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

- There is a dialogue with shareholders based on the mutual understanding and alignment of objectives, conducted primarily through the CEO and the Corporate Broker.

Risk management remains a key area of focus during Board meetings. Details of the Company's risk management and internal control framework is set out on pages 9-11.

Composition and Independence of the Board of Directors

The Board of Directors is responsible for ensuring the affairs of the Company are properly managed through formulating, reviewing and approving the Company's strategy, budgets, and corporate actions and that oversight, scrutiny and challenge is applied to Executives responsible for the day-to-day activities of the Group. The Company seeks to deliver long-term growth for shareholders and maintain a flexible, efficient and effective management framework within an entrepreneurial environment.

It is important that the Board itself contains the right mix of skills and experience in order to deliver the strategy of the Company. As such, the Board is comprised of:

- Two Independent Non-Executive Directors, one of which serves as the Chairman, who is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

- One Non-Executive Director who, whilst sharing the fiduciary and statutory duties of the independent directors, is also an executive director of the Somerston Group, a significant shareholder of the Company, and therefore not considered independent under the QCA Code.

- Two Executive Directors, who are also members of the Group's Executive Committee and are therefore not considered independent under the QCA Code.

The Board is comprised of individuals holding professional qualifications and experience relevant to the activities of the Company. A biography of each of the Directors is included on pages 21 and 22. The time requirement expected from each of the Directors is set out in writing in their respective appointment letters.

Liberum Capital has been appointed as the Company's Corporate Broker and Nominated Adviser under the AIM Rules and advises on compliance with the AIM Rules, corporate communications and acts as financial adviser to corporate actions. Additionally, the Company has appointed a professional Company Secretary who assists the Board of Directors in preparing for and running effective board meetings, including the timely dissemination of appropriate information. The Company Secretary provides guidance to the extent required by the Board on certain aspects of the legal and regulatory environment, within which the Company operates.

The Board believes that long serving Directors should not be prevented from forming part of the Board or from acting as Chairman and no limit has been imposed on the overall length of service of the Directors. Each Director will retire and seek reappointment at every third annual general meeting, with those serving for nine years or more subject to reappointment annually. The Board meets on at least a quarterly basis during the financial year.

The Board has appointed several committees to support it in different areas of the business; each with formal terms of reference, with specific roles as set out below.

The Board undertakes an annual evaluation of its own performance, the performance of its formally constituted committees and that of individual Directors. This includes a formal process of self-appraisal reviewing the balance of skills, experience, independence and diversity present on the Board, and individual director performance, contribution and commitment to the Group to ensure that the Board and its committees continue to operate effectively, or to identify areas where action is required. The remainder of the Board is responsible for evaluating the performance of the Chairman. The Chairman also has responsibility for assessing the individual Board members' training requirements. No significant findings were identified in the 2023 evaluation which required further action.

The Directors remain mindful of the benefits which can flow from increasing the level of diversity represented on the Board including, but not limited to, cultural, gender, experience and background. Such factors will be taken into consideration by the Nomination Committee during any selection process.

Executive Management Team

As at the year end, the Company's Executive Management Team comprised Rory Mepham (Chief Executive Officer), Tracy Clarke (Interim Chief Financial Officer), and James Waghorn (Chief Investment Officer) (together the "Executive Management Team" or "Management"). Management are responsible for the day-to-day management of the Company's operations. The non-executive independent Directors monitor and evaluate the performance of the Management Team on an ongoing basis.

BOARD COMMITTEE STRUCTURE

Audit and Risk Committee

The Audit and Risk Committee conducts formal meetings at least twice a year. The Audit and Risk Committee's key duties include:

- Monitoring the integrity of the financial statements of the Group, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing, challenging (where necessary) and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor, and how they were addressed.

- Reviewing the Group's internal financial controls and the Group's internal control and risk management systems.

- Making recommendations to the Board for it to put to the shareholders for their approval in general meeting in relation to the appointment, re-appointment or removal of the external auditor and to recommend the remuneration and terms of engagement of the external auditor.

- Monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into account relevant professional and regulatory requirements.

- In conjunction with executive management, advise the Board on the overall risk appetite, tolerance and strategy of the Group, current risk exposures and future risk strategy.

- Keep under review the Group's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.

The Audit and Risk Committee has three members, two of whom are independent, non-executive directors and one of whom is a non-executive director, and at least one member has recent and relevant financial experience. The current members of the Committee are John Whittle as the Chairman, Steve Smith and Tracy Clarke.

The Audit and Risk Committee is supported by a risk management and oversight process employed by the Executive Management Team and receives reports twice a year on key risks and developments during the period, or as otherwise required in the case of a material development.

The terms of reference of the Audit and Risk Committee are available from the Company Secretary.

Remuneration and Nomination Committee

The purpose of the Remuneration and Nomination Committee is to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Directors, senior executives, and any bonus-related arrangements in place by the Company as well as to consider the structure, size and composition of the Board. The key duties of the Remuneration and Nomination Committee include:

- Determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman, executive and non-executive directors and such other members of the management as it is designated to consider.

- Reviewing the ongoing appropriateness and relevance of the remuneration policy.

- Reviewing the structure, size and composition of the Board.

- Considering the succession planning for Directors and the Executive Management Team.

- Reviewing the leadership needs of the organisation.

- Identifying candidates for appointment to the Board.

The Remuneration and Nomination Committee has three members, all of whom are non-executive directors and two are independent. The current members of the committee are John Whittle as the Chairman, Steve Smith and Tracy Clarke.

The terms of reference of the Remuneration and Nomination Committee are available from the Company Secretary. Please refer to the Remuneration Report on page 30 for details of fees paid to the Directors during the year.

Meetings and attendance

The Directors meet on a quarterly basis ('Quarterly' meetings per the table below) and at other unscheduled times ('Other' meetings per the table below) when necessary to assess Group operations and the setting and monitoring of strategy and performance.

The table below, details the attendance of the Board at eligible Board and Committee meetings during the year, noting that certain Directors retired or were appointed during the course of the year as set out below the table:

	Board			
	Quarterly	Other	Remuneration & Nomination Committee	Audit and Risk Committee
Total number of meetings held during the year	4	3	1	3
Stephen Smith	4 of 4	3 of 3	1 of 1	3 of 3
John Whittle	4 of 4	3 of 3	1 of 1	3 of 3
Tracy Clarke	3 of 3 (plus 1 as Observer pre-appointment)	3 of 3	N/A	3 of 3
Emma Stubbs (resigned 30 March 2023)	1 of 4	1 of 3	N/A	N/A
Rory Mepham	4 of 4	3 of 3	N/A	N/A

Relations with Stakeholders

The Board's advisers and the Executive Management Team maintain regular dialogue with key shareholders, the feedback from which is reported to the Board and the Chairman. Shareholders who wish to communicate with the Board should contact the Company Secretary in the first instance, whose contact details can be found on page 86.

The Board also regularly monitors the shareholder profile of the Company. All shareholders have the opportunity to and are encouraged to attend the Company's annual general meeting at which members of the Board are available in person to meet shareholders and answer questions.

Whilst the primary duty of the Directors is owed to the Company as a whole, the Board takes into consideration the interests of all key stakeholder groups as part of its decision-making process and particular consideration is given to the impact of any decision on holders of its securities, the Co-Funders to the underlying loan businesses, and providers of the Group's long-term debt capital. The Board also recognises the crucial roles played by those involved throughout the Group's operations who contribute to delivering strategy, including staff and key service providers, to ensure a continued alignment of interests between their activities and those of the Company.

Terms of Reference of Committees

Committee Terms of Reference are available from the Company Secretary.

The Audit and Risk Committee

The Audit and Risk Committee has a formal terms of reference mandate documenting the duties and responsibilities which it has been delegated by the Board. These are available from the Company Secretary. The Audit and Risk Committee has been in operation throughout the year under review.

Chairman and Membership
The Audit and Risk Committee comprises of John Whittle as Chairman, Steve Smith and Tracy Clarke. Only Non-Executive Directors serve on the Audit and Risk Committee and members of the Audit and Risk Committee have no links with the Company's external auditor and are independent of the Executive Management Team. The Audit and Risk Committee meets not less than three times a year in Guernsey and meets the external auditor at least twice a year in Guernsey. The identity of the Chairman of the Audit and Risk Committee is reviewed on an annual basis and the membership of the Audit and Risk Committee, and its terms of reference are kept under review. Regular attendees at the Audit and Risk Committee include the CEO, CFO and CIO.

Duties
The Audit and Risk Committee is responsible for monitoring the financial reporting process, including the appropriateness of the Company's accounting policies and the effectiveness of the Company's risk management and internal control systems. The Committee continues to spend a considerable amount of time reviewing significant risks and areas of judgement. In particular, the Committee conducts detailed reviews and analysis of the valuations prepared by the Executive Management Team of the FinTech Ventures investments, the Subsidiary Goodwill value in use models to assess if any impairment might be required and the Expected Credit Loss model. These valuations are key elements in the Group's financial statements and the Audit and Risk Committee questions these carefully.

External Audit
The Audit and Risk Committee is responsible for overseeing the relationship with the external auditor, including the ongoing assessment of the auditor's independence. The Committee makes recommendations to the Board with regard to the appointment of the external auditor and approves their terms of engagement and fees. The Committee discusses and agrees the nature and scope of the audit as set out in the audit engagement letter, reviews the results of the audit as described in the auditors' management letter and the ongoing independence and objectivity of the external auditor. Moore Kingston Smith LLP has been appointed as the Group's auditor. The Group's former external auditor, Moore Stephens Audit & Assurance (Jersey) Limited, resigned in May 2024 for technical reasons relating to the listing of the Group's Zero Dividend Preference shares. As part of their resignation Moore Stephens Audit & Assurance (Jersey) Limited confirmed that there were no factors that they required to the members or creditors of the Group to be made aware of.

Processes are in place to safeguard the independence of the external auditor, including controls around the use of the external auditor for non-audit services. The external auditor also provides the Audit and Risk Committee with further assurance as to the procedures that it maintains to preserve objectivity and confirmation that it remains independent. All non-audit services are pre-approved by the Audit and Risk Committee.

Effectiveness of External Auditor

The Committee assessed the effectiveness of the external auditor and the external audit process for 2023 through a number of steps, including:

- Agreement of their engagement letter and fees.
- Review of the external audit plan.
- Meetings with the external auditors.
- Considering the extent of any non-audit services provided by the external auditors.
- Considering the external auditors' fulfilment of the agreed audit plan and variations from it.
- Considering the report from the auditor highlighting any major issues that arose during the course of the audit.
- Conducting interviews to obtain feedback from the Executive Management Team to evaluate the performance of the audit team.

For the audit for the year ended 31 December 2023, the Audit and Risk Committee was satisfied that the audit was effective and that there were no factors which had any bearing on the independence or effectiveness of the external auditor.

Financial Reporting

The Audit and Risk Committee reviews, considers and, if thought appropriate, recommends to the Board the approval of the contents of the half yearly report and annual report and audited financial statements together with the external auditor's report thereon. It focuses particularly on compliance with legal requirements, accounting standards and the relevant Listing Rules. The ultimate responsibility for reviewing and approving the half year report and annual report and audited financial statements remains with the Board.

The Audit and Risk Committee provides a forum through which the external auditor reports to the Board and the external auditor is invited to attend Audit and Risk Committee meetings at which annual and half yearly financial statements are considered. After discussions with the Executive Management Team and external auditor, the Audit and Risk Committee determined that the key risks of misstatement of the Group's financial statements relate to the valuation of financial assets at fair value through profit or loss, the valuation and recoverability of goodwill, loan impairments and revenue.

Freely tradeable market prices are not available for the majority of the Group's financial assets, including the carrying value of goodwill arising on consolidation, which are therefore based on a discounted cash flow basis. Goodwill impairment testing is carried out annually or sooner where an indicative event of impairment has been identified. As set out in Note 12 to the financial statements, on 5 December 2023, the Group sold its Jersey operations in exchange for a 50% shareholding in a new joint venture, Hawkbridge Limited. The goodwill attributable to these Jersey operations has therefore been fully transferred to Hawkbridge Limited as part of the consideration.

For the valuations of the FinTech Ventures portfolio, the Executive Management Team provides a detailed valuation report on a quarterly basis. The Executive Management Team has confirmed to the Audit and Risk Committee that the valuation methodology has been applied consistently during the year. The accounting policies are described in detail in Note 2 (f) to the financial statements.

The Audit and Risk Committee has assessed the processes around the expected credit loss provisions recorded in respect of the Group's loan assets and reviewed the IFRS 9 model adopted at year-end which had also gone through the credit committee for approval.

The accounting policies for revenue recognition are described in detail in Note 2 (o) to the financial statements. The Audit and Risk Committee has reviewed the revenue recognition policies of the Group and has determined that they are in accordance with the accounting standards and have been applied consistently.

After due consideration, the Audit and Risk Committee recommends to the Board that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Non-Audit and audit related fees paid to the External Auditors

During 2023 no non-audit fees were paid to Moore Kingston Smith LLP, the external auditors or Moore Stephens, the former external auditors. £15,000 was paid to Moore Stephens for audit related services, being the half year review. There is no perceived threat to auditor independence given the nature of the services provided and the safeguards in place.

Risk Management and Internal Control Systems

During 2023, management continued to enhance its reporting on risk management to the Board and the Audit and Risk Committee, which cover the operation of the Company and its wholly owned subsidiaries. The Audit and Risk Committee has received and considered these reports on three occasions, which has been the basis for its conclusion below.

In addition to the review of risk management reports, and in accordance with the guidance published in the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting by the Financial Reporting Council (the "FRC"), the Audit and Risk Committee has reviewed the Company's internal control procedures and concluded that these are adequate to manage the current risk profile.

A robust, ongoing process of Risk Management and Internal Control

The Board and Executive Management Team are responsible for safeguarding the assets of the Group through establishing effective systems of risk management and internal control. This responsibility is shared by the Directors of subsidiary companies, who are similarly responsible for safeguarding the assets of these companies.

The Board is also responsible for deciding on whether the nature and extent of risks taken within the Group are within its risk appetite. Such risks have been formally defined (refer page 9), setting the basis for the design and implementation of the Group's internal control framework.

On behalf of the Board, the Audit and Risk Committee oversees the Group's risk management and internal control systems. These systems are designed to ensure proper accounting records are maintained and that internal and published financial information is reliable, and that the assets of the Group are safeguarded. Such a system of internal controls can only provide reasonable and not absolute assurance against misstatement or loss.

Critical components of the Group's internal control framework include the documented policies which describe how each risk is to be managed and governed and the governance committees established in terms of such policies, which have mandates describing how they should operate, what reports they should receive and how they should govern the management of principal risks. Such policies have been implemented at Company as well as subsidiary levels.

On a semi-annual basis, the Executive Management Team review the key risks across the Group to ensure they are being managed within the Company's risk appetite. Action plans are drawn up if any risks are considered to be outside of the Company's risk appetite and these are monitored on a regular basis until they return to levels back within the risk appetite.

On a semi-annual basis, the Board and/or Audit and Risk Committee receive reports on risk management, the key risks and the exposures outstanding. Also included in these reports are the results of the Executive Management Team's risk and issue identification discussions noted above. These meetings also provide the Directors with the opportunity to consider any other issues which management may not have identified and give direction on any additional risk management actions which might be required.

Insurance
The Sancus and subsidiaries insurance programme is subject to annual review each year, with cover generally renewed in April of the following year. A significant amount of Insurance cover is held for Public Indemnity, Directors' and Officers' liability, Cyber, and Crime. Appropriate office and travel insurance is also in place.

During 2023, the Committee did not receive any reports relating to whistleblowing across the Group.

On behalf of the Audit and Risk Committee

John Whittle
Chairman
Audit and Risk Committee
28 June 2024

REMUNERATION REPORT

Introduction
An ordinary resolution for the approval of the annual remuneration report will be put to the shareholders at the annual general meeting to be held in 2024.

Remuneration and Nomination Committee
The Remuneration and Nomination Committee comprises of John Whittle as Chairman, Steve Smith and Tracy Clarke. The key duties include, but are not limited to, agreeing a framework for Director remuneration, ensuring management staff are appropriately incentivised to enhance performance, and reviewing the effectiveness of the remuneration policy on an on-going basis. No Director is involved in determining their own remuneration.

Remuneration Policy
In February 2020 the Remuneration Policy was last approved and adopted. The Company is committed to the objective of maximising shareholder return in the longer term. The remuneration policy aims to be competitive, aligned with shareholder interests and relatively simple and transparent. The Board takes into consideration the views of significant shareholders when determining the remuneration of directors.

The objective is to put in place a remuneration package that, as a whole:

- Aligns the interests of employees with that of shareholders and the success of the Company.
- Is appropriately benchmarked, such that it aids retention and recruitment.
- Meets applicable legal or regulatory requirements, is tax efficient and simple to implement and administer.

The Board is reviewing the Remuneration Policy against these objectives.

The Policy is divided into two parts; the first part in relation to the remuneration of the Non-Executive directors of the Company, and the second part in relation to the remuneration of the Executive Directors of the Company.

Part 1 – Remuneration Policy of Non-Executive Directors
Each Non-Executive Director receives a fixed fee per annum based on their role and responsibility within the Company and the time commitment required. It is not considered appropriate that Non-Executive Directors' remuneration should be performance related and none of the Non-Executive Directors are eligible for pension benefits, share options, long-term incentive schemes or other benefits in respect of their services as Non-Executive directors of the Company. Shares held by the Non-Executive Directors are disclosed in the Annual Report.

Pursuant to Article 30.3 of the Company's Articles of Incorporation (the "Articles") the Board may award additional remuneration to any Director engaged in exceptional work at the request of the Board on a time spent basis to compensate for the additional time spent over their expected time commitment.

The total remuneration of the Non-Executive Directors has not exceeded the £300,000 per annum limit (excluding amounts payable in respect of any out-of-pocket expenses pursuant to Article 30.2 or any additional remuneration awarded pursuant to Article 30.3) pursuant to an ordinary resolution passed at the Annual General Meeting of the Company held on 19 May 2016.

The Articles provide that Non-Executive Directors retire and offer themselves for re-election- at the first annual general meeting after their appointment and at least every three years thereafter. A Non-Executive Director's appointment may at any time be terminated by and at the discretion of either party upon three months' written notice. A Non-Executive Director's appointment will terminate immediately without notice (or payment in lieu of notice) if such director is not re-appointed at a General Meeting of the Company (if required under the Articles), if such director is removed as a director at a General Meeting of the Company, or if such director resigns or ceases to be a director in accordance with the provisions of the Articles.

The terms and conditions of appointment of each Non-Executive Director are available for inspection at the Company's registered office.

The last independent remuneration review was carried out in July 2014. A Long Term Incentive Plan was established for Senior Management during 2023, further details of which are set out below.

Non-Executive Directors (Continued)

For comparative purposes the table below sets out the Non-Executive Directors' remuneration approved and actually paid for the year to 31 December 2022 as well as that proposed for the year ended 31 December 2023 (to be approved at the 2024 AGM).

Director	Role	Base for 2023	Additional fees for 2023	Total fees for 2023	Base for 2022	Additional fees for 2022	Total fees for 2022
Steve Smith	Non-Executive Director and Chairman of the Board	£35,000	£15,000 for Chairman of the Board	£50,000	£35,000	£15,000 for Chairman of the Board	£50,000
John Whittle	Non-Executive Director, Chairman of the Audit and Risk Committee and Chairman of the Remuneration Committee	£35,000	£5,000 for Chairman of the ARC and £2,500 for Chairman of Rem & Nom Co	£42,500	£35,000	£5,000 for Chairman of the ARC and £2,500 for Chairman of Rem & Nom Co	£42,500
Nicholas Wakefield*	Non-Executive Director	-	-	-	£6,329	-	£6,329
Tracy Clarke*	Non-Executive Director	£8,750	£97,500	£106,250	£28,671	Nil	£28,671
Total		**£78,750**	**£120,000**	**£198,750**	**£105,000**	**£22,500**	**£127,500**

* Pro rata for 2022 as Mr Wakefield was succeeded by Ms Clarke on 8 March 2022. Ms Clarke served as a non-executive director from 1 January 2023 to 31 March 2023 and during which she received a pro-rata portion of her annual fees of £35,000. She then served as Interim Group CFO from 1 April 2023 and received the pro rata portion of an annual salary of £130,000.

Part 2 - Remuneration Policy of Executive Directors

For comparative purpose the following table sets out remuneration paid to Executive Directors for the years ended 31 December 2023 and 31 December 2022, excluding all reasonable expenses incurred in the course of their duties which were reimbursed by the Company.

	31 December 2023					31 December 2022			
Director	**Base Salary**	**Cash Bonus**	**Pension Contribution**	**Other [4]**	**Total**	**Base Salary**	**Cash Bonus**	**Pension Contribution**	**Total**
Rory Mepham	£220,000	-	£11,000	-	£231,000	£220,000	-	£11,000	£231,000
Emma Stubbs [1]	£85,000	-	£4,250	£85,000	£174,250	£17,000	-	£8,500	£178,500
Tracy Clarke [2]	£97,500	-	-	-	£97,500	-	-	-	-
James Waghorn	£153,750	-	£1,321	-	£155,071	£135,000	£50,000	£1,076	£186,076
Helen Trott [3]	£55,817	-	£771	£99,606	£156,194	£135,000	-	£117	£135,117
Total	**£612,067**	**-**	**£17,342**	**£184,606**	**£814,015**	**£660,000**	**£50,000**	**£20,693**	**£730,693**

[1] Ms Stubbs resigned on 31 March 2023.
[2] As noted above, Ms Clarke served as Interim Group CFO from 30 March 2022 until 31 March 2023.
[3] Ms Trott was appointed COO and Legal Counsel on 29 November 2022 and was employed on a 4 day a week contract. She resigned on 14 July 2023.
[4] Relates to termination payments to Ms Stubbs and Ms Trott, including payments in lieu of notice.

Long Term Incentives

The Board introduced a Long Term Incentive Plan ("LTIP") for Senior Management during 2023. An initial grant of restricted forfeiture ordinary shares was made to Rory Mepham and James Waghorn as follows:

	Value at grant of share awards	No. of shares
Rory Mepham	£110,000	22,000,000
James Waghorn	£70,000	14,000,000

These forfeiture shares will vest in 2026, 3 years after grant, and the level of vesting will be subject to the achievement of operating profit targets measured up to the end of the 2025 financial year.

	Operating Profit achieved in year ending 31 December 2025[(1)]	Level of vesting
Maximum	£4m	100%
	£3m	75%
	£2m	50%
Threshold	£1m	25%
Below threshold	Below £1m	0%

[1] Defined as operating profit after all debt financing including ZDP and Bonds, loan loss provisions/recoveries and a provision for other staff cash bonuses. Operating profit is measured pre-exceptional items and taxation.

Subject to shareholder approval at the Annual General Meeting it is proposed that a further grant of will be made to members of the Executive Management and certain members of senior management. The awards proposed to be awarded to the Executive Management are as follows:

	Value at grant of share awards	No. of shares
Rory Mepham	£110,000	22,000,000
James Waghorn	£80,000	16,000,000
Keith Lawrence	£40,000	8,000,000

These forfeiture shares will vest in 2027, 3 years after grant, and the level of vesting will be subject to the achievement of operating profit targets measured up to the end of the 2026 financial year.

	Operating Profit achieved in year ending 31 December 2026[(1)]	Level of vesting
Maximum	£5m	100%
	£4m	75%
	£4m	50%
Threshold	£2m	25%
Below threshold	Below £2m	0%

[1] Defined as operating profit after all debt financing including ZDP and Bonds, loan loss provisions/recoveries and a provision for other staff cash bonuses. Operating profit is measured pre-exceptional items and taxation.

Discretionary Executive Bonus

No discretionary cash bonuses were paid to the Executive Management Team in 2023. (In the year to 2022: £50,000 was paid to James Waghorn).

On behalf of the Remuneration Committee

John Whittle
Remuneration Committee Chairman
28 June 2024

Sancus Lending Group Limited
For the year ended 31 December 2023
DIRECTORS' REPORT

The Directors submit their Report together with the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows and the related Notes for the year ended 31 December 2023, which have been prepared in accordance with UK-adopted International Accounting Standards, in accordance with any relevant enactment for the time being in force, and are in agreement with the accounting records, which comply with Section 238 of The Companies (Guernsey) Law, 2008.

Principal Activities
The Company was incorporated and domiciled in Guernsey, as a company limited by shares and with limited liability on 9 June 2005 in accordance with The Companies (Guernsey) Law, 1994 (since superseded by The Companies (Guernsey) Law, 2008). From January 2023 the Company changed its management and control from Guernsey to Jersey. Until 25 March 2015, the Company was Authorised as a Closed-ended Investment Scheme and was subject to the Authorised Closed-ended Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission ("GFSC"). On 25 March 2015, the Company was registered with the GFSC as a Non-Regulated Financial Services Business, at which point the Company's authorised fund status was revoked. The Company's Ordinary Shares were admitted to the AIM market of the London Stock Exchange on 5 August 2005. The ZDPs were listed and traded on the main market of the London Stock Exchange with effect from 5 October 2015 and following shareholder approval now have a maturity date of 5 December 2027. The Company's 2021 bonds were repaid on 21 December 2021 and a total of £12.575m principal of new bonds (the "New Bonds") were issued on 22 December 2021. Somerston subscribed to a further £2.425m bonds on 1 December 2022 taking the Company's aggregated bond principal to £15m of which £10.13m is now held by Somerston. The New Bonds are not listed and have an interest rate of 7%.

The Company does not have a fixed life and the Articles do not contain any trigger events for a voluntary liquidation of the Company.

Following the approval by Shareholders at the Company AGM on 19 May 2016, the Company changed its status from being an investing company for the purpose of the AIM rules to a trading Company.

The Executive Management Team is responsible for the day-to-day management of the Company.

The Group
As at 31 December 2023, the Group comprises the Company and the entities disclosed in Note 20 to the financial statements.

Directors and Executive Management Team of the Company
A list of the Directors and the Executive Management Team who served the Company during the year and as at the date of this report is shown on page 21.

Results and Dividends
The Group results for the year are set out on page 43-46. No Dividends were paid during the year (31 December 2022: Nil).

Substantial Shareholdings
As at 31 December 2023, the Company was aware of the following substantial shareholders who held 3% or more of issued share capital of the Company:

	Number of Ordinary Shares held	Percentage of total ordinary shares issued held
Somerston Group	300,827,335	51.50%
Philip J Milton & Company plc	95,247,327	16.31%

Directors' Interests
As at 31 December 2023, the Directors had the following beneficial interests in the Ordinary Shares of the Company:

	31 December 2023		31 December 2022	
	No. of Ordinary Shares Held	% of Ordinary Shares Held	No. of Ordinary Shares Held	% of Ordinary Shares Held
John Whittle	138,052	0.02	138,052	0.02
Steve Smith	-	-	-	-
Rory Mepham	2,000,000	0.34	-	-
Tracy Clarke	-	-	-	-

Statement of Directors' Responsibilities
The Directors are responsible for preparing the financial statements in accordance with UK-adopted International Accounting Standards and The Companies (Guernsey) Law, 2008 for each financial period to give a true and fair view of the state of affairs of the Group as at the end of the financial year and of the profit or loss for that period. International Accounting Standard 1 requires that financial statements present fairly for each financial period the Group's financial position, financial performance and cash flows. This requires faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements". In virtually all circumstances a fair presentation will be achieved by compliance with all IFRSs as adopted by the UK.

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

- Ensure that the financial statements comply with the Memorandum and Articles of Incorporation and UK-adopted International Accounting Standards.
- Select suitable accounting policies and apply them consistently.
- Present information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Make judgements and estimates that are reasonable and prudent.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements have been properly prepared in accordance with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors also confirm that the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Internal Controls Review
Taking into account the ongoing work of the Audit and Risk Committee in monitoring the risk management and internal control systems on behalf of the Board the Directors, the latter has conducted a robust assessment of the principal risks and uncertainties faced by the Group as set out on page 9 and is satisfied that each of these has been properly identified and is being effectively managed through the operation of appropriate internal controls and risk management systems, within the constraints of the resources of the Group.

Sancus Lending Group Limited
For the year ended 31 December 2023
DIRECTORS' REPORT (Continued)

Statement as to Disclosure of Information to Auditor
The Directors who held office at the date of approval of this Directors' Report confirm that:

- There is no relevant audit information of which the Company's auditors are unaware.
- The Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditor
Moore Kingston Smith LLP were appointed in the year and have indicated their willingness to continue in office and a resolution to re-appoint Moore Kingston Smith LLP will be tabled at the forthcoming AGM.

Going Concern

The Group has reported an operating loss of £9.9m (2022: £4.7m) for the year. This is primarily due to an ECL charge of £4.8m (2022: £0.4m). As at 31 December 2023 the Group had net liabilities of (£1.9m) (2022: net assets of £7.2m), including cash and cash equivalents of £5.0m (2022: £4.1m).

The Directors have considered the going concern basis in the preparation of the financial statements as supported by the Director's assessment of the Company's and Group's ability to pay its liabilities as they fall due and have assessed the current position and the principal risks facing the business with a view to assessing the prospects of the Company. The Directors have prepared a cash flow forecast for the period to 30 September 2025 which shows that the Company and the Group will have sufficient cash resources to meet their ongoing liabilities as they fall due for at least twelve months from the date of approval of these financial statements. Following the extension of the ZDPs at the end of 2022, for a further 5 years to 5 December 2027 and with the Bonds maturity date not until 31 December 2025, the Company does not have any debt liabilities that fall due within the next 12 months. Based on this, along with the issuance of preference shares by a subsidiary of the Group in April 2024 and as set out in Note 27 to these financial statements, the Directors are of the opinion that the Company and the Group has adequate financial resources to continue in operation and meet its liabilities as they fall due for the foreseeable future.

It is however expected, whereby equity is required to facilitate an increase in drawdown from institutional funding lines that the Company will require growth capital to fund the continued growth of the loan book. The Company's largest shareholder, Somerston has indicated their willingness to support the Company's growth plans. The Company will be looking at options available to raise such additional growth capital over the course of the year.

The Directors therefore believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Board Succession
The Directors remain focussed on ensuring the Board is comprised of individuals with the requisite skills, knowledge, experience and diversity to operate effectively and to meet the future leadership needs of the Company. From 30 March 2022 until 31 March 2023 Ms Tracy Clarke served as the Interim Group CFO. Keith Lawrence, who joined the Group in February 2024, was appointed as Group CFO on this date and Ms Tracy Clarke has reverted to being Somerston's appointed Board representative.

Approved and signed on behalf of the Board of Directors on 28 June 2024.

Director: Stephen Smith

Director: John Whittle

Independent auditor's report to the members of Sancus Lending Group Limited

Opinion

We have audited the Group financial statements of Sancus Lending Group Limited (the 'Group') for the year ended 31 December 2023 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards.

In our opinion the Group financial statements:

- Give a true and fair view of the state of the group's affairs as at 31 December 2023 and of the group's loss for the Year then ended;
- Have been properly prepared in accordance with UK-adopted International Accounting Standards; and
- Have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

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

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile. We conducted substantive audit procedures and evaluated the group's internal control environment. 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 components of the group were evaluated by the group audit engagement team based on a measure of materiality, considering each component as a percentage of the group's total assets, current assets, revenue and gross profit, which allowed the group audit engagement team to assess the significance of each component and determine the planned audit response.

For those components that were evaluated as significant components, either a full scope audit or a specified audit procedures approach was determined based on their relative materiality to the group and our assessment of the level of audit risk. For significant components requiring a full scope audit approach, we evaluated controls by performing walkthroughs over the financial reporting systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. We then undertook substantive testing on significant transactions and material account balances.

We determined there to be five significant components to the group, which were Sancus Lending Group Limited, Sancus Lending (UK) Limited, Sancus Holdings (UK) Limited, Sancus Loans Limited and Sancus Lending (Ireland) Limited which were subject to full scope audits. Other non-significant components were subject to targeted audit procedures based on the level of risk in the context of the group as a whole.

Significant elements of the group's operations are located in the United Kingdom and the Republic of Ireland. Component audit teams in both countries performed full scope audits of relevant significant components.

The audit of the United Kingdom significant components was completed by another office of Moore Kingston Smith LLP l and the audit of the Republic of Ireland significant component was completed by Moore Ireland Audit Partners Limited .These audits were completed under the supervision and direction of the group audit engagement team, as described in more detail below. The remaining significant component, namely the parent company Sancus Lending Group Limited, was audited by the group audit engagement team.

Our involvement with the component auditors

As part of our supervision and direction of the component audit teams, we determined the level of involvement required in order to be able to conclude whether sufficient appropriate audit evidence has been obtained in respect of the United Kingdom and Irish significant components as a basis for our opinion on the group financial statements as a whole. Our involvement with the component auditors included the following:

Our involvement with the component auditors (continued)

- We issued detailed group reporting instructions to the component auditors, which included the significant areas to be covered by the audit (including areas that were considered to be key audit matters as detailed below) and set out the information required to be reported to the group audit engagement team.
- The group audit engagement team performed reviews of relevant working papers and performed additional audit work where necessary for instance in respect of the significant risk areas that represented Key Audit Matters for the group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the group financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Audit Matter	Procedures
Accounting treatment of goodwill and investment in joint venture and assessment of carrying value On 5 December 2023 the group entered into a joint venture agreement for which the majority of the consideration was the business of Sancus Lending (Jersey) Limited which included the goodwill previously recognised in the group financial statements in respect of that business of £14.255m (2022:£14.255m). The investment in the joint venture had been recognised at a fair value of £16.312m in the draft financial statements. We identified this transaction as a significant risk given its material nature and the subjectivity of the accounting treatment.	Our audit work included, but was not restricted to, the following procedures: • We critically assessed the legal documentation in respect of the transaction to determine its legal nature and commercial substance. • We critically assessed the directors' accounting treatment of the transaction in the draft financial statements to determine whether it complied with the requirements of the relevant financial reporting standards, specifically IAS 28 and IFRS 11. • We obtained management's assessment of whether there are any indicators of impairment of the investment in the joint venture. • We critically assessed the arithmetic accuracy of the DCF Capital Asset Pricing Model prepared by management in forming the above assessment. • We critically assessed the inputs into the DCF Capital Asset Pricing Model and obtained supporting evidence and documentation for the assumptions used in the DCF Capital Asset Pricing Model • We performed sensitivity analysis on the key assumptions used in the DCF Capital Asset Pricing Model • We evaluated the accounting policy and detailed disclosures in the notes to the financial statements to determine whether information provided in the financial statements is compliant with the requirements of relevant financial reporting standards including IFRS 11 and IAS 36. Based on our audit work performed we determined that the fair value uplift of £2.057m on recognition of the joint venture in the draft financial statements required adjustment to ensure that the joint venture had been accounted for in accordance with the requirements of IAS 28 and IFRS 11. We consider the disclosures in the financial statements relating to this area to be adequate following amendments to the relevant disclosures in the notes to the financial statements and to and the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position as a result of the adjustment referred to above.

<table>
<tr><th>Audit Matter</th><th>Procedures</th></tr>
<tr><td>Impairment and recoverability of loans receivable

At 31 December 2023 the value of loans and loan equivalents was £78.865m (2022:£76.125m) representing 74.1% of total assets (2022:75%). The loan portfolio comprises property backed loans and direct exposure to loans through co-investment alongside third party lenders.

The group has also provided a first loss guarantee as part of the Sancus Loan Note structures. The value of these assets are also supported by the underlying loan book. Management is required to assess loans for impairment, including the application of the expected credit loss ('ECL') model under IFRS 9.

In making this assessment, management makes several significant judgements. These include determining appropriate assumptions for calculating the loss allowance under IFRS 9 (including probability of default and loss given default), as well as loan-specific matters including cash flow forecasts and covenant compliance, specifically related to loan to value (LTV) ratio. As a result, errors or deliberate manipulation of these determining factors could result in material misstatement of the financial statements, as such it is considered as a key audit matter.</td><td>Our audit work included, but was not restricted to, the following procedures:

• We obtained an understanding of the significant controls over the loans impairment process

• We performed a walkthrough of the impairment process including testing of the operation of the relevant controls.

• We critically assessed the reasonableness of management's allocation of loans to the various stages under IFRS 9 including an assessment of management's definition of significant increase in credit risk and definition of default.

• We critically assessed management's assumptions in respect of the recoverability of non-performing loans.

• We critically assessed management's judgements and estimates in determining the probability of default ('PD'), determining the loss given default ('LGD') and exposure at default ('EAD') for each stage within which loans are classified.

• We performed sample testing of inputs used in the Loans Monitoring Report ('LMS')

• We critically assessed the accounting policy and detailed disclosures in the financial statements to determine whether information provided in the financial statements is compliant with the requirements of IFRS 9

Based on our audit work performed we have not identified any material misstatement in the impairment and recoverability of loans.

We consider the disclosures in the financial statements relating to this area to be adequate.</td></tr>
</table>

Audit Matter	Procedures
Revenue recognition The group's revenue for the year ended 31 December 2023 was £12.310m (2022: £9.989m) being interest income and fees enforced as per lending agreements. Revenue recognition is a presumed significant risk and is material to the financial statements.	Our audit work included, but was not restricted to, the following procedures: • We obtained and documented an understanding of the methodology for recognising revenue to determine whether it was appropriate. • We critically assessed the group's revenue accounting policy to assess compliance with IFRS 15. • We performed substantive testing on a sample of individual revenue transactions throughout the year to evaluate whether revenue is recognised in accordance with the loan contract terms and the requirements of IFRS 15. • We performed substantive testing of a sample of interest income selected from the Loans Monitoring Reports by recalculating the interest amount and comparing it to the interest income recognised. • We performed revenue cut off testing to ensure revenue has been recognised in the correct accounting period. • We performed analytical review to critically assess the level of interest income. • We critically assessed the disclosures in the financial statements to determine whether the accounting policy and other revenue disclosures comply with the disclosure requirements of IFRS 15 Based on our audit work performed we have not identified any material misstatement in the recognition of revenue. We consider the disclosures in the financial statements relating to this area to be adequate.

Our application of materiality

The scope and focus of our audit were influenced by our assessment and application of materiality. We define materiality as the magnitude of misstatement that could reasonably be expected to influence the readers and the economic decisions of the users of the financial statements. We use materiality to determine the scope of our audit and the nature, timing, and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

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

	Group financial statements
Materiality	£1,081,000
Basis for determining materiality	Gross assets
Rationale for the benchmark applied	The group is an asset-based operation. Assets (loans) drive the group's revenue. Consequently gross assets was considered likely to be the metric on which the users of the financial statements will place most focus.
Performance materiality	£540,500
Basis for determining performance materiality	50% of overall materiality.

Performance materiality:

We calculated performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality level for the Group consolidated financial statements as a whole. We determined performance materiality to be £540,500, which was set at 50% of overall materiality and reflects the Group’s listed status.

Component materiality:

We set materiality for each component of the group based on a percentage of group materiality dependent on the size and our assessment of risk of material misstatements of that component. Component materiality, other than the parent company’s, ranged from £60,000 to £757,450. In the audit of each component, we further applied performance materiality levels of 50% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Trivial:

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £54,050 for the group. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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’s ability to continue to adopt the going concern basis of accounting included, but was not limited to:

- Critically assessing the going concern assessment prepared by management covering at least twelve months from the date of approval of the financial statements and challenging the client as regards the key assumptions and forecasts used in their assessment; Performing sensitivity analysis on the cash flow forecast to determine the level of headroom for the group to continue as a going concern for at least twelve months from the date of approval of the financial statements; and

- Reviewing the post year end trading performance of the group and comparing it to the forecasts prepared by management to assess their accuracy; and

- Assessing the adequacy of the going concern disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group’s ability to continue as a going concern.

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

Other information

The other information comprises the information included in the annual report, other than the Group financial statements and our auditor’s report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the group financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the group financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group 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 there is a material misstatement in the group 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors’ report.

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Proper accounting records have not been kept by the parent company; or
- The financial statements are not in agreement with the accounting records.

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out on page 34, the directors are responsible for the preparation of the group 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 group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group 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 Group financial statements

Our objectives are to obtain reasonable assurance about whether the group 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

A further description of our responsibilities is available on the FRC’s website at https://www.frc.org.uk/library/standards-codes-policy/audit-assurance-and-ethics/auditors-responsibilities-for-the-audit/#description-of-the-auditors-responsibilities-for-the-audit-of-the-financial-statements-aef17638. This description forms part of our auditor’s report.

Explanation as to what extent the audit was considered 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.

The objectives of our audit in respect of fraud, are; to identify and assess the risks of material misstatement of the group financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks; and to respond appropriately to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the Group.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory requirements applicable to the group and considered that the most significant are the Companies (Guernsey) Law, 2008, UK-adopted International Accounting Standards, the rules of the Alternative Investment Market, and relevant taxation legislation.

- We obtained an understanding of how the group complies with these requirements by discussions with management and those charged with governance.

- We assessed the risk of material misstatement of the group financial statements, including the risk of material misstatement due to fraud and how it might occur, by holding discussions with management and those charged with governance.

- We inquired of management and those charged with governance as to any known instances of non-compliance or suspected non-compliance with laws and regulations.

- Based on this understanding, we designed specific appropriate audit procedures to identify instances of non-compliance with laws and regulations. This included making enquiries of management and those charged with governance and obtaining additional corroborative evidence as required.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Group financial statements. Also, 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 or intentional misrepresentations, or through collusion.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Moore Kingston Smith LLP

Matthew Banton
for and on behalf of Moore Kingston Smith LLP, Statutory Auditor
6th Floor
9 Appold Street
London
EC1A 2AP

28 June 2024

Sancus Lending Group Limited
For the year ended 31 December 2023
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2023 £'000	2022 £'000
Revenue	5	12,310	9,989
Cost of sales	6	(10,856)	(7,609)
Gross profit		**1,454**	**2,380**
Operating expenses	7	(6,496)	(6,674)
Operating loss before credit losses		**(5,042)**	**(4,294)**
Changes in expected credit losses	22	(4,817)	(418)
Operating loss		**(9,859)**	**(4,712)**
FinTech Ventures fair value movement	22	715	(894)
Other net gains	8	39	233
Goodwill impairment	12	-	(8,639)
Loss on disposal of other assets	26	(202)	-
Profit on disposal of other assets	14	303	-
Loss for the year before tax		(9,004)	(14,012)
Income tax expense	18	(130)	(50)
Loss for the year after tax		**(9,134)**	**(14,062)**
Items that may be reclassified subsequently to profit and loss			
Foreign exchange (loss)/gain arising on consolidation		(16)	20
Other comprehensive income for the year after tax		**(16)**	**20**
Total comprehensive loss for the year		**(9,150)**	**(14,042)**
Loss for the year after tax attributable to equity holders of the company		**(9,134)**	**(14,062)**
Total comprehensive loss attributable to equity holders of the company		**(9,150)**	**(14,042)**
Basic Loss per Ordinary Share	10	(1.56)p	(2.89)p
Diluted Loss per Ordinary Share	10	(1.56)p	(2.89)p

The accompanying Notes on pages 47 to 85 form an integral part of these financial statements.

Sancus Lending Group Limited
As at 31 December 2023
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31 December 2023 £'000	31 December 2022 £'000
Non-current assets			
Fixed assets	11	294	425
Goodwill	12	-	14,255
Other intangible assets	13	-	-
Sancus loans and loan equivalents	22	10,148	23,864
FinTech Ventures investments	22	-	-
Other investments	14	50	100
Investments in equity-accounted joint ventures and associates	9	14,255	-
Total non-current assets		24,747	38,644
Current assets			
Other assets	14	-	706
Sancus loans and loan equivalents	22	68,617	52,261
Trade and other receivables	15	8,058	5,806
Cash and cash equivalents		4,990	4,134
Total current assets		81,665	62,907
Total assets		**106,412**	**101,551**
EQUITY			
Share premium	16	118,340	118,340
Treasury shares	16	(1,172)	(1,172)
Other reserves		(119,144)	(109,994)
Capital and reserves attributable to equity holders of the Group		(1,976)	7,174
Total equity		**(1,976)**	**7,174**
LIABILITIES			
Non-current liabilities			
Borrowings		106,086	90,868
Lease liabilities		130	152
Total non-current liabilities	17	106,216	91,020
Current liabilities			
Trade and other payables		925	1,708
Hedging contracts		231	398
Tax liabilities		76	145
Provisions		18	413
Lease liabilities		152	212
Interest payable		770	481
Total current liabilities	17	2,172	3,357
Total liabilities		**108,388**	**94,377**
Total equity and liabilities		**106,412**	**101,551**

The financial statements were approved by the Board of Directors on 28 June 2024 and were signed on its behalf by:

Director: Stephen Smith

Director: John Whittle

The accompanying Notes on pages 47 to 85 form an integral part of these financial statements.

Sancus Lending Group Limited
As at 31 December 2023
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share Premium £'000	Treasury Shares £'000	Warrants Outstanding £'000	Foreign Exchange Reserve £'000	Retained Earnings/ (Losses) £'000	Capital and reserves attributable to equity holders of the Company £'000
Balance at 1 January 2023		118,340	(1,172)	-	31	(110,025)	7,174
Transactions with owners		-	-	-	-	-	-
Total comprehensive income/(loss) for the year		-	-	-	(16)	(9,134)	(9,150)
Balance at 31 December 2023		**118,340**	**(1,172)**	**-**	**15**	**(119,159)**	**(1,976)**
Balance at 1 January 2022		116,218	(1,172)	385	11	(96,348)	19,094
Exercise of warrants	16	2,122	-	-	-	-	2,122
Movement in fair value of warrants		-	-	(385)	-	385	-
Transactions with owners		2,122	-	(385)	-	385	2,122
Total comprehensive income/(loss) for the year		-	-	-	20	(14,062)	(14,042)
Balance at 31 December 2022		**118,340**	**(1,172)**	**-**	**31**	**(110,025)**	**7,174**

Sancus Lending Group Limited
For the year ended 31 December 2023
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	31 December 2023 £'000	31 December 2022 £'000
Cash flow from operations, excluding loan movements	19	(10,634)	(3,548)
Decrease/(Increase) in Sancus loans		2,501	(140)
Increase in Sancus Loans Limited loans		(5,468)	(21,450)
Divestment in Sancus Loan Notes		50	-
Net Cash flows used in operating activities		(13,551)	(25,138)
Investing activities			
Net investments in FinTech Ventures		715	(394)
Divestment in Sancus (IOM) Holdings Limited		-	516
Investment in joint venture		(100)	(50)
Expenditure on Sancus Properties Limited		-	(210)
Sale of Sancus Properties Limited		1,008	-
Property, equipment and other intangibles acquired		(3)	(17)
Net cash inflow / (outflow) from investing activities		1,620	(155)
Financing activities			
Drawdown of Pollen facility	19	10,000	15,250
Capital element of lease payments	19	(229)	(212)
Exercise of warrants		-	2,122
Issue of bonds	19	-	2,425
Debt issue costs	19	32	(577)
Sale/(Repayment) of ZDPs	19	3,000	(2,037)
Net cash generated by financing activities		12,803	16,971
Effects of foreign exchange		(16)	20
Net increase/(decrease) in cash and cash equivalents		856	(8,302)
Cash and cash equivalents at beginning of year		4,134	12,436
Cash and cash equivalents at end of year		4,990	4,134

The accompanying Notes on pages 47 to 85 form an integral part of these financial statements.

1. GENERAL INFORMATION

Sancus Lending Group Limited (the "Company"), together with its subsidiaries, (the "Group") was incorporated, and domiciled in Guernsey, Channel Islands, as a company limited by shares and with limited liability, on 9 June 2005 in accordance with The Companies (Guernsey) Law, 1994 (since superseded by The Companies (Guernsey) Law, 2008). Until 25 March 2015, the Company was an Authorised Closed-ended Investment Scheme and was subject to the Authorised Closed-ended Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission ("GFSC"). On 25 March 2015, the Company was registered with the GFSC as a Non-Regulated Financial Services Business ("NRFSB"), at which point the Company's authorised fund status was revoked. The Company's Ordinary Shares were admitted to trading on the AIM market of the London Stock Exchange on 5 August 2005 and its issued zero dividend preference shares were listed and traded on the Standard listing Segment of the main market of the London Stock Exchange with effect from 5 October 2015. The Company changed where its business is managed and controlled, from Guernsey to Jersey, effective 1 April 2023. The Board agreed that the Company should revoke its NRFSB status, which was completed on 23 June 2023.

The Company does not have a fixed life and the Articles do not contain any trigger events for a voluntary liquidation of the Company. The Company is an operating company for the purpose of the AIM rules. The Executive Management Team is responsible for the management of the Company.

As at 31 December 2023, the Group comprises the Company and its subsidiaries (Note 20).

The Company has taken advantage of the exemption conferred by the Companies (Guernsey) Law, 2008, Section 244, not to prepare company only financial statements.

2. ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards, and all applicable requirements of Guernsey Company Law. The financial statements have been prepared under the historical cost convention, as modified for the measurement of investments at fair value through profit or loss. With the exception of any new and amended accounting standards which require policy changes, detailed in Note 2 (v), the principal accounting policies of the Group have remained unchanged from the previous year and are set out below. Comparative information in the primary statements is given for the year ended 31 December 2022.

The Group does not operate in an industry where significant or cyclical variations, as a result of seasonal activity, are experienced during any particular financial period.

Going Concern

The Group has reported an operating loss of £9.9m (2022: £4.7m) for the year. This is primarily due to an ECL charge of £4.8m (2022: £0.4m). As at 31 December 2023 the Group had net liabilities of (£1.9m) (2022: net assets of £7.2m), including cash and cash equivalents of £5.0m (2022: £4.1m).

The Directors have considered the going concern basis in the preparation of the financial statements as supported by the Director's assessment of the Company's and Group's ability to pay its liabilities as they fall due and have assessed the current position and the principal risks facing the business with a view to assessing the prospects of the Company. The Directors have prepared a cash flow forecast for the period to 30 September 2025 which shows that the Company and the Group will have sufficient cash resources to meet their ongoing liabilities as they fall due for at least twelve months from the date of approval of these financial statements. Following the extension of the ZDPs at the end of 2022, for a further 5 years to 5 December 2027 and with the Bonds maturity date not until 31 December 2025, the Company does not have any debt liabilities that fall due within the next 12 months. Based on this, along with the issuance of preference shares by a subsidiary of the Group in April 2024 and as set out in Note 27 to these financial statements, the Directors are of the opinion that the Company and Group has adequate financial resources to continue in operation and meet its liabilities as they fall due for the foreseeable future.

It is however expected, whereby equity is required to facilitate an increase in drawdown from institutional funding lines that the Company will require growth capital to fund the continued growth of the loan book. The Company's largest shareholder, Somerston, has indicated their willingness to support the Company's growth plans. The Company will be looking at options available to raise additional growth capital over the course of the year, which may include a form of equity raise or sale by the Company of ZDP shares held in treasury.

The Directors therefore believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The financial statements comprise the results of Sancus Lending Group and its subsidiaries for the year ended 31 December 2023. The subsidiaries are all entities where the Company has the power to control the investee, is exposed, or has rights to variable returns and has the ability to use its power to affect these returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases. Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year is recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated in full on consolidation.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(d) Dividends

Dividend distributions are made at the discretion of the Company. A dividend distribution to shareholders is accounted for as a reduction in retained earnings. A proposed dividend is recognised as a liability in the period in which it has been approved and declared by the Directors.

(e) Expenditure

All expenses are accounted for on an accruals basis. Management fees, administration fees, finance costs and all other expenses (excluding share issue expenses which are offset against share premium) are charged through the Consolidated Statement of Comprehensive Income.

(f) Financial assets and liabilities

Classification, recognition and initial measurement

Classification and measurement of debt assets is driven by the business model for managing the financial assets and the contractual cash flow characteristics of those financial assets. There are three principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income and (iii) fair value through profit and loss. Equity investments in the scope of IFRS 9 are measured at fair value with gains and losses recognised in profit and loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

We are a lending business, which participates in financing to borrowers, Sancus loans, loan equivalents and loans through platforms. As a result all of these loans/loan equivalents are held solely for the collection of contractual cash flows, being interest, fees and payment of principal. These assets are held at amortised cost using the effective interest rate method, adjusted for any credit loss allowance.

FinTech Ventures investments relate to equity, preference shares and some working capital loans. Whilst some of these investments attract interest, the assets are held primarily to assist the development of the entities involved. These investments are held at fair value with charges recognised in profit and loss.

2. ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

Trade payables, financial liabilities and trade receivables are held solely for the collection and payment of contractual cash flows, being payments of principal and interest where applicable. Trade receivables are held at amortised cost using the effective interest rate method, adjusted for any credit loss allowance. Trade payables and financial liabilities are held at amortised cost with any interest cost calculated in accordance with the effective interest rate.

Financial assets and financial liabilities are initially recognised on the trade date, which is the date on which the Group becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in the Consolidated Statement of Comprehensive Income. Financial assets and financial liabilities not at fair value through profit or loss are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Subsequent to initial recognition, financial assets are either measured at fair value or amortised cost as noted above. Realised gains and losses arising on the derecognition of financial assets and liabilities are recognised in the period in which they arise. The effect of discounting on trade and other receivables is not considered to be material.

Fair value measurement

“Fair value” is the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as “active” if transactions of the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Group measures financial instruments quoted in an active market at a mid price.

If there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. Please refer to Note 22.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred. If in the case of any investment the Directors at any time consider that the above basis of valuation is inappropriate or that the value determined in accordance with the foregoing principles is unfair, they are entitled to substitute what in their opinion, is a fair value. Gains and losses arising from changes in the fair value of the financial assets and liabilities at fair value through profit or loss are included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

Debt and Equity Instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments are recorded at the proceeds received less any direct costs of issue.

2. ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

Derecognition

Sales of all financial assets are recognised on trade date - the date on which the Group disposes of the economic benefits of the asset. Financial assets are derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred substantially all risks and rewards of ownership.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the Consolidated Statement of Comprehensive Income. Any interest in such transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

Derivative financial instruments

The Group enters into foreign exchange forward contracts in order to manage its exposure to foreign exchange rate movements. Further details can be found in Note 22.

Forward contracts are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. Resulting gains/losses are recognised in profit or loss immediately. Forward contracts with positive fair value are recognised as financial assets whereas forward contracts with negative fair value are recognised as financial liabilities. Contracts are presented as non-current assets or liabilities if the remaining maturity of the instrument is more than 12 months and is not expected to be settled within 12 months. Other contracts are presented as current assets.

Expected credit losses

Credit risk is assessed at initial recognition of each financial asset and subsequently re-assessed at each reporting period-end. For each category of Credit risk loans have been categorized into Stage 1, Stage 2 and Stage 3 with Stage 1 being to recognise 12 month Expected Credit Losses (ECL), Stage 2 being to recognise Lifetime ECL not credit impaired and Stage 3 being to recognise Lifetime ECL credit impaired. When for example LTV exceeds 65% or amounts become 30 days past due judgement will be used to reassess whether Credit risk has increased significantly enough to move the loan from one stage to another. A loan is considered to be in default when there is a failure to meet the legal obligation of the loan agreement. This would include provisions against loans that are considered by management as unlikely to pay their obligations in full without realisation of collateral. Refer to Note 22 for further details.

Sancus loans and loan equivalents are assessed for credit risk based on information available at initial recognition, predominantly (but not solely) using Loan to Value (LTV). For trade and other receivables, the Group has applied the simplified approach to recognise lifetime expected credit losses although loan interest receivable is included in the gross carrying value when determining ECL.

Provision for ECL is calculated using the credit risk, the probability of default and the probability of loss given default, all underpinned by the LTV, historical position, forward looking considerations and on occasion subsequent events, and the subjective judgement of the Board. ECL assumes the life of the loan is consistent with contractual term.

Financial guarantee contracts

Financial guarantee contracts are only recognised as a financial liability when it becomes probable that the guarantee will be called upon in the future. The liability is measured at fair value and subsequently in accordance with the expected credit loss model under IFRS 9. The fair value of financial guarantees is determined based on the present value of the difference in cash flows between contracted payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

2. ACCOUNTING POLICIES (continued)

(g) Foreign currency translation

Functional and presentation currency

The financial statements of the Group are presented in the currency of the primary economic environment in which the Company operates (its functional currency). The Directors have considered the primary economic environment of the Company and considered the currency in which finance is raised, distributions made, and ultimately what currency would be returned if the Company was wound up. The Directors have also considered the currency to which the underlying investments are exposed. On balance, the Directors believe Sterling best represents the functional currency of the Company. Therefore, the books and records are maintained in Sterling and for the purpose of the financial statements, the results and financial position of the Group are presented in Sterling, which is also the presentation currency of the Group.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 Consolidated Statement of Comprehensive Income. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

All subsidiaries are presented in Sterling, which is the primary currency in which they operate with the exception of Sancus Lending (Ireland) Limited whose primary currency is the Euro. Translation differences on non-monetary items are reported as part of the fair value gain or loss reported in the Consolidated Statement of Comprehensive Income.

Foreign exchange differences arising on consolidation of the Group's foreign operations are taken direct to reserves. The rates of exchange as at the year-end are £1: USD1.2731 (31 December 2022 USD1.2101) and £1: EUR1.1534 (31 December 2022 EUR1.1284).

(h) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is measured as the excess of (a) the aggregate of: (i) the consideration transferred measured in accordance with IFRS 3, which generally requires acquisition-date fair value; (ii) the amount of any non-controlling interest in the acquiree measured in accordance with IFRS 3; and (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree; over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3. Goodwill is carried at cost less accumulated impairment losses. Refer to Note 2 (k) for a description of impairment testing procedures and Note 12 for details on impairment testing.

(i) Interest costs

Interest costs are recognised when economic benefits are due to debt holders. Interest costs are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the liability's net carrying amount on initial recognition.

(j) Other intangible assets

Intangible assets with finite useful lives are amortised to profit or loss on a straight-line basis over their estimated useful lives. Useful lives and amortisation methods are reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis. Amortisation commences when the intangible asset is available for use. The residual value of intangible assets is assumed to be zero.

2. ACCOUNTING POLICIES (continued)

(j) Other intangible assets (continued)

Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and third party contractor costs. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over their estimated useful lives, which does not exceed four years.

(k) Impairment testing of goodwill, intangible assets and property and equipment

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

All impairments or subsequent reversals of impairments are recognised in the Consolidated Statement of Comprehensive Income.

(l) Investment in Joint Venture and associates

A joint venture is a joint arrangement over which the Group has joint control. An associate is an entity over which the Group has significant influence but is not a subsidiary.

An investment in a joint venture or associate is accounted for by the Group using the equity method except for certain FinTech Ventures associates as described in Note 3. These are measured at fair value through profit or loss in accordance with policy Note 2 (f).

Any goodwill or fair value adjustment attributable to the Group's share in the joint venture or associate is not recognised separately and is included in the amount recognised as an investment.

The carrying amount of the investment in a joint venture or associate is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture or associate and adjusted where necessary to ensure consistency with the accounting policies of the Group.

2. ACCOUNTING POLICIES (continued)

(l) Investment in Joint Venture and associates (continued)

Unrealised gains and losses on transactions between the Group and its joint venture or associate are eliminated to the extent of the Group's interest in the entity. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

(m) Non-Current Liabilities

Loans payable are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, loans payable are stated at amortised cost using the effective interest rate method.

The ZDPs are contractually required to be redeemed on their maturity date and they will be settled in cash, thus, ZDP shares are classified as liabilities (refer to Note 17) in accordance with IAS 32 Financial Instruments: Presentation. After initial recognition, these liabilities are measured at amortised cost, which represents the initial proceeds of the issuance plus the accrued entitlement to the reporting date. Any ZDPs acquired by the group, as noted in Note 17, are held in Treasury and shown as a reduction in carrying value.

(n) Property and equipment

Tangible fixed assets include computer equipment, furniture and fittings stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost of tangible property and computer equipment on a straight-line basis over its expected useful economic life as follows:

Furniture and fittings	3 to 5 years
Computer equipment	2 to 4 years

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes where applicable in the Group. Revenue is reduced for estimated rebates and other similar allowances. The Group has five principal sources of revenue and related accounting policies are outlined below:

Interest on loans

Interest income is recognised in accordance with IFRS 9. Interest income is accrued over the contractual life of the loan, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Fee income on syndicated and non-syndicated loans

In accordance with the guidance in IFRS 15 Revenue, the Group distinguishes between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

i) Commitment and arrangement fees

Commitment and arrangement fees earned for syndicated loans are recognised on origination of the loan as compensation for the service of syndication. This is a reflection of the commercial reality of the operations of the business to arrange and administer loans for other parties i.e. the execution of a significant act and satisfying the Group's performance obligation at the point of arranging the loan.

2. ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

i) Commitment and arrangement fees (continued)

Consistent with the policy outlined above, commitment and arrangement fees earned on loans originated for the sole benefit of the Group are also recorded in revenue on completion of the service of analysing or originating the loan. Whilst this is not in accordance with the requirements of the effective interest rate method outlined in IFRS 9 Financial Instruments, this is not considered to have a material impact on the financial performance or financial position of the Group.

ii) Exit fees

Where a loan is syndicated and has standard terms the exit fee is recognised as part of the arrangement fee, reflecting the costs of syndication at the start of the loan. Where a loan is syndicated and has milestones or conditions which determine if the fee becomes payable and/or the magnitude of the fee the exit fee is treated as variable consideration in line with IFRS 15 and is only recognised when the relevant milestones/conditions are met. Where loans are not syndicated the exit fee is deemed to be part of the effective interest rate and recognised over the term of the loan.

iii) Fee income earned by peer-to-peer subsidiary platforms

Fee income earned by subsidiaries whose principal business is to operate online lending platforms that arrange financing between Co-Funders and Borrowers includes arrangement fees, trading transaction fees, repayment fees and other lender related fees. Revenue earned from the arrangement of financing is classified as a transaction fee and is recognised immediately upon acceptance of the arrangement by borrowers. Other transaction fees, including revenue from Co-Funders in relation to the sale of their loan participations in platform secondary markets is also recognised immediately.

Loan repayment fees are charged on a straight-line basis over the repayments of the borrower’s financing arrangement.

iv) Advisory fees

Advisory fee income is invoiced and recognised on an accruals basis in accordance with the relevant investment advisory agreement.

(p) Share based payments

As explained in the Remuneration Report, the Company provides a discretionary bonus, part of which may be satisfied through the issuance of the Company’s own shares, to certain senior management. The cost of such bonuses is taken to the Consolidated Statement of Comprehensive Income with a corresponding credit to Shareholders’ Equity. The fair value of any share options granted is determined at the grant date and the expense is spread over the vesting period in accordance with IFRS 2.

(q) Taxation

Current tax, including corporation tax in relevant jurisdictions that the Group operates in, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits, and its results as stated in the financial statements, that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

2. ACCOUNTING POLICIES (continued)

(r) Treasury shares

Where the Company purchases its own Share Capital, the consideration paid, which includes any directly attributable costs, is recognised as a deduction from Share Premium.

When such shares are subsequently sold or reissued to the market, any consideration received, net of any directly attributable incremental transaction costs, is recognised as an increase in Share Premium. Where the Company cancels treasury shares, no further action is required to the Share Premium account at the time of cancellation.

(s) Warrants

Warrants are accounted for as either equity or liabilities based upon the characteristics and provisions of each instrument and are recorded at fair value as of the date of issuance. In subsequent periods an amount representing the difference between the warrant exercise price and the prevailing market price of the company's shares is transferred from/to retained earnings to/from warrants outstanding.

(t) Inventories – Development properties

Inventories are stated at the lower of cost and net realisable value. Cost comprises initial outlay and, where applicable, additional costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing and selling. Repossessed assets are accounted for under IAS 2: Inventories because the Group will either immediately seek to dispose of those assets which are readily marketable or pursue the original development plans to sell for those that are not readily marketable. Such assets are classed as "Other Assets" within current assets on the Statement of Financial Position.

(u) Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate (initially measured using the index or rate at the commencement date), the amount expected to be payable by the lessee under residual value guarantees, the exercise price of purchase options (if the lessee is reasonably certain to exercise the options) and payments of penalties for terminating the lease if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within current and non-current liabilities in the consolidated statement of financial position. It is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Group remeasures this liability (and makes a corresponding adjustment to the related right-of-use asset) whenever the lease term has changed or there is a change in the lease payments used on inception to measure the liability as described above.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

2. ACCOUNTING POLICIES (continued)

(u) Leases (continued)

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Operating expenses' in profit or loss.

(v) Adoption of new and revised Standards

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2023:

IFRS 17 Insurance Contracts.
Definition of Accounting Estimates – amendments to IAS 8.
International Tax Reform – Pillar Two Model Rules – amendments to IAS 12.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – amendments to IAS 12.
Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards and interpretations not yet adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2024:

Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases).
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements).
Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements).
Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current and Amendments to IAS 1 – Non-current Liabilities with Covenants.

The following amendment is effective for the period beginning 1 January 2025:

Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates).

The Group is currently assessing the impact of these new accounting standards and amendments. The Group does not expect any other standards issued by the IASB, but are yet to be effective, to have a material impact on the Group.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note 2, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. There is no change in applying accounting policies for critical accounting estimates and judgments from the prior year. 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.

Critical judgements in applying the group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Fair value accounting for FinTech Ventures investments

Some of the Group's FinTech Ventures investments meet the definition of an associate. However, the Group has applied the exemption available under IAS 28.18 which states that when an investment in an associate is held by, or is held indirectly through, an entity that is a venture capital organisation, the entity may elect to measure investments in those associates at fair value through profit or loss in accordance with IFRS 9 - Financial Instruments.

The Directors consider that the Group is of a nature similar to a venture capital organisation on the basis that FinTech Ventures investments form part of a portfolio which is monitored and managed without distinguishing between investments that qualify as associate undertakings and those that do not. Furthermore, the most appropriate point in time for exit from such investments is being actively monitored as part of the Group's investment strategy.

The Group therefore designates those investments in associates which qualify for this exemption as fair value through profit or loss. Refer to Note 22 for fair value techniques used. If the Group had not applied this exemption the investments would be accounted for using the equity method of accounting. This would have the impact of taking a share of each investment's profit or loss for the year and would also affect the carrying value of the investments.

The Directors consider that equity and loan stock share the same investment characteristics and risks and they are therefore treated as a single unit of account for valuation purposes and a single class for disclosure purposes.

Exit fees

The Directors consider that the economic measurement of fee revenues that arise and become due on the completion of a loan (exit fees and warrants) should be accounted for as variable consideration and the exit fee constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Variable consideration is included based on the expected value or most likely amount, with the estimated transaction price associated with syndication services (being the performance obligation to which these fees are attributable) due on collection of the loan, updated at the end of each reporting period to represent the circumstances present and any changes in circumstances during the reporting period. This includes factors such as timing risk, liquidity risk, quantum uncertainty and conditions precedent in the syndicated finance contract. The Directors consider that this treatment best reflects the commercial operations of the Group as an administrator of loan arrangements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Critical judgements in applying the group's accounting policies (continued)

IFRS 10 Control Judgements

Judgement is sometimes required to determine whether after considering all relevant factors, the Group has control, joint control or significant influence over an entity or arrangement. Other companies may make different judgements regarding the same entity or arrangement. The Directors have assessed whether or not the Group has control over Sancus Loan Notes 8 based on whether the Group has the practical ability to direct the relevant activities unilaterally. In making their judgement, the directors considered the rights associated with its investment in preference shares. After assessment, the directors concluded that the Group does not have the ability to affect returns through voting rights (the preference shares do not have voting rights) or other arrangements such as direct management of these entities (the Group does not have control over the investment manager). If the Directors had concluded that the ownership of preference shares was sufficient to give the Group control, these entities would instead have been consolidated with the results of the Group.

IFRS 9 Credit Risk

Credit risk and determining when a significant increase in credit risk has occurred are critical accounting judgements and are assessed at each reporting period end. Credit risk is used to calculate expected credit losses (ECL). Further details on credit risk can be found in Note 22.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill and joint venture investments

As detailed in Note 9, the Directors have assessed the carrying value of joint venture investments entered into by the Group. This assessment includes discounted cash flow value-in-use analysis. Given the nature of the Group's operations, the calculation of value in use is sensitive to the estimation of future cash flows and the discount rates applied.

IFRS 9 ECL

Key areas of estimation and uncertainty are the probabilities of default (PD) and the probabilities of loss given default (PL) which are used along with the credit risk in the calculation of ECL. Further details on ECLs, PD and PL can be found in Note 22. Should the estimates of PD or PL prove to be different from what actually happens in the future, then the recoverability of loans could be higher or lower than the accounts currently suggest, although this should be mitigated by the levels of LTV which are, in the main, less than 70%. Where loans are in default and classified within stage 3, the Directors estimate of the present value of amounts recoverable through enforcement or other repayment plans could be materially different to the actual proceeds received to settle the balances due. In respect of certain loans held by the Group, the range of outcomes is significant and has a material impact on the calculation of ECL.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty (continued)

Fair Value of the FinTech Ventures investments

The Group invests in financial instruments which are not quoted in active markets and measures their fair values as detailed in Note 22.

All of the FinTech Ventures investments are categorised as Level 3 in the fair value hierarchy. In the past the Directors have estimated the fair value of financial instruments using discounted cash flow methodology, comparable market transactions, recent capital raises and other transactional data including the performance of the respective businesses. Having considered the terms, rights and characteristics of the equity and loan stock held by the Group in the FinTech Ventures investments, the Board's estimate of liquidation value of these assets is £Nil at 31 December 2023 (31 December 2022: £Nil). Changes in the performance of these businesses and access to future returns via its current holdings could affect the amounts ultimately realised on the disposal of these investments, which may be greater or less than £nil. There have been no transfers between levels in the period (2022: None).

4. SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the manner in which the Executive Management Team reports to the Board, which is regarded to be the Chief Operating Decision Maker (CODM) as defined under IFRS 8. The main focus of the Group is Sancus. Bearing this in mind the Executive Management Team have identified 4 segments based on operations and geography.

Finance costs and Head Office costs are not allocated to segments as such costs are driven by central teams who provide, amongst other services, finance, treasury, secretarial and other administrative functions based on need. The Group's borrowings are not allocated to segments as these are managed by the Central team. Segment assets and liabilities are measured in the same way as in these financial statements and are allocated to segments based on the operations of the segment and the physical location of those assets and liabilities.

The four segments based on geography, whose operations are identical (within reason), are listed below. Note that Sancus Loans Limited, although based in the UK, is reported separately as a stand-alone entity to the Board and as such is considered to be a segment in its own right.

1. Offshore

Contains the operations of Sancus Lending (Jersey) Limited, Sancus Lending (Guernsey) Limited, Sancus Properties Limited, Sancus Group Holdings Limited and Sancus Lending (Gibraltar) Limited up to the date of its sale on 15 March 2023.

2. United Kingdom (UK)

Contains the operations of Sancus Lending (UK) Limited and Sancus Holdings (UK) Limited.

3. Ireland

Contains the operations of Sancus Lending (Ireland) Limited.

4. Sancus Loans Limited

Contains the operations of Sancus Loans Limited.

4. SEGMENTAL REPORTING (continued)

							Reconciliation to Consolidated Financial Statements				
Year to 31 December 2023	**Offshore £'000**	**UK £'000**	**Ireland £'000**	**Sancus Loans Limited (SLL) £'000**	**Sancus Debt Costs £'000**	**Total Sancus £'000**	**Head Office £'000**	**SLL Debt Costs £'000**	**Fintech Ventures Fair Value & Forex £'000**	**Other £'000**	**Consolidated Financial Statements £'000**
Revenue	**1,275**	**3,025**	**2,164**	**(1,799)**	**-**	**4,665**	**-**	**7,645**	**-**	**-**	**12,310**
Operating (loss)/profit *	(530)	501	1,060	(1,846)	-	**(815)**	(1,315)	-	-	(19)	**(2,149)**
Credit Losses	(1,120)	(31)	-	(3,666)	-	**(4,817)**	-	-	-	-	**(4,817)**
Debt Costs	-	-	-	-	(2,893)	**(2,893)**	-	-	-	-	**(2,893)**
Other (losses)/gains	96	-	5	152	-	**253**	-	-	715	(13)	**955**
Loss on JVs and associates	-	-	-	-	-	**-**	-	-	-	(100)	**(100)**
Taxation	3	-	(133)	-	-	**(130)**	-	-	-	-	**(130)**
(Loss)/Profit After Tax	**(1,551)**	**470**	**932**	**(5,360)**	**(2,893)**	**(8,402)**	**(1,315)**	**-**	**715**	**(132)**	**(9,134)**
Year to 31 December 2022											
Revenue	**1,372**	**2,679**	**1,547**	**(725)**	**-**	**4,873**	**-**	**5,116**	**-**	**-**	**9,989**
Operating Profit/(loss) *	(943)	(446)	647	(744)	-	(1,486)	(1,026)	-	-	(31)	(2,543)
Credit Losses	(244)	-	-	(174)	-	(418)	-	-	-	-	(418)
Debt Costs	-	-	-	-	(1,751)	(1,751)	-	-	-	-	(1,751)
Other Gains/(losses)	(8,630)	-	10	191	-	(8,429)	-	-	(894)	57	(9,266)
Loss on JVs and associates	-	-	-	-	-	-	-	-	-	(34)	(34)
Taxation	18	-	(68)	-	-	(50)	-	-	-	-	(50)
(Loss)/Profit After Tax	**(9,799)**	**(446)**	**589**	**(727)**	**(1,751)**	**(12,134)**	**(1,026)**	**-**	**(894)**	**(8)**	**(14,062)**

* Operating Profit/(loss) before credit losses and debt costs

Sancus Loans Limited is consolidated into the Group's results as it is 100% owned by Sancus Group. However, the reality is that Sancus Loans Limited is a Co-Funder the same as any other Co-Funder. As a result the Board reviews the economic performance of Sancus Loans Limited in the same way as any other Co-Funder, with revenue being stated net of debt costs. Operating expenses include recharges from UK to Offshore £490,000 (2022: £466,000), Offshore to Ireland £74,000 (2022: £127,000), Head Office to Offshore £125,000 (2022: £125,000) and UK to Head Office £212,000 (2022: Offshore to Head Office £8,000).

4. SEGMENTAL REPORTING (continued)

At 31 December 2023	Offshore £'000	UK £'000	Ireland £'000	Sancus Loans Limited (SLL) £'000	Total Sancus £'000	Head Office £'000	Fintech Portfolio £'000	Other £'000	Inter Segment Balances £'000	Consolidated Financial Statements £'000
						Reconciliation to Financial Statements				
Total Assets	32,329	17,298	1,668	86,822	138,117	59,306	-	9	(91,020)	106,412
Total Liabilities	(54,670)	(18,494)	(273)	(96,832)	(170,269)	(29,130)	-	(9)	91,020	(108,388)
Net (Liabilities)/ Assets	**(22,341)**	**(1,196)**	**1,395**	**(10,010)**	**(32,152)**	**30,176**	**-**	**-**	**-**	**(1,976)**

Head Office liabilities include borrowings £28,917,000 (2022: £24,042,000). Other FinTech assets and liabilities are included within "Other."

5. REVENUE

	2023 £'000	2022 £'000
Co-Funder fees	2,730	1,733
Earn out (exit) fees	1,188	677
Transaction fees	2,260	3,063
Total revenue from contracts with customers	**6,178**	**5,473**
Interest on loans	167	83
Pollen Interest income	5,847	4,390
Sundry income	118	43
Total Revenue	**12,310**	**9,989**

The disaggregation of revenue reflects the different performance obligations in contracts with customers as described in the accounting policy Note 2(o) and the typical timing of payment for those relevant revenue streams.

6. COST OF SALES

	2023 £'000	2022 £'000
Interest costs	2,917	1,789
Pollen interest costs	7,645	5,116
Other cost of sales	294	704
Total cost of sales	**10,856**	**7,609**

7. OPERATING EXPENSES

	2023 £'000	2022 £'000
Amortisation and depreciation	282	305
Audit fees	128	140
Company secretarial	119	112
Corporate insurance	68	(16)
Employment costs	4,276	4,858
Investor relations expenses	79	63
Legal and professional	355	(141)
Marketing expenses	76	255
NOMAD fees	75	75
Other office and administration costs	923	901
Pension costs	79	101
Registrar fees	31	16
Sundry	5	5
	6,496	**6,674**

8. OTHER NET GAINS/(LOSSES)

The £39,000 other net gains is made up of gains on foreign exchange £139,000 and loss on joint ventures and associates of £100,000. (2022 £233,000 other net gains: consist of gains on foreign exchange £267,000 and loss on joint ventures and associates of £34,000).

9. INVESTMENTS IN JOINT VENTURES

	31 December 2023 £'000	31 December 2022 £'000
At beginning of year	-	500
Additions – joint venture	100	-
Additions – goodwill	14,255	-
Impairment of joint venture	(100)	-
Disposals	-	(500)
At end of year	14,255	-

The Group has a 50% share in Amberton Limited. The addition in the year represents £100,000 of investment in Amberton Limited and which was subsequently written down to a carrying value of £Nil. Amberton Limited, which is a Jersey registered entity, was incorporated in January 2021 and has been established as a joint venture to manage the loan note programme going forward.

On 5 December 2023, the Group entered into a Joint Venture ("JV") agreement with Hawk Family Office Limited for a new bridge and development lending business in the Channel Islands. Sancus Lending (Jersey) Limited ("SLJL") entered into a Business and Asset Purchase Agreement ("BAPA") with Hawk Lending Limited (the previous lending business of Hawk Family Office Limited) and Hawkbridge Limited (the new joint venture lending business) ("Hawkbridge"). Under the terms of the BAPA, SLJL sold to Hawkbridge Limited its business as a going concern including goodwill, business information, moveable assets, records and third party rights. The consideration for the business of SLJL was the issue of 12 shares in the newly formed JV holding company, Hawkbridge Limited, giving Sancus Group Holdings Limited a 50% ownership in the JV. Hawkbridge Limited has two wholly owned subsidiaries, Hawkbridge Lending Limited and Westmead Debt Services Limited.

Under the joint venture shareholder agreement, all new Channel Islands lending business will be written through Hawkbridge. Hawkbridge will also provide administration and other services to SLJL and Hawk Lending Limited.

9. INVESTMENTS IN JOINT VENTURES (continued)

The addition recognised in respect of the Hawkbridge joint venture reflects the value of the goodwill transferred in from SLJL under the BAPA.

The new joint venture lending company became operational on 1 January 2024 and thus there was no change in net assets from 5 December 2023 to 31 December 2023.

10. LOSS PER ORDINARY SHARE

Consolidated loss per Ordinary Share has been calculated by dividing the consolidated loss for the year after tax attributable to Ordinary Shareholders of £9,134,000 (31 December 2022: loss of £14,062,000) by the weighted average number of Ordinary Shares (excluding treasury shares) outstanding during the period of 584,138,346 (31 December 2022: 485,999,406).

Note 16 describes the warrants in issue, which are currently out of the money. As such the warrants have not been considered to have a dilutive effect on the loss per Ordinary Share in the current year.

	31 December 2023	**31 December 2022**
Number of shares	584,138,346	584,138,346
Weighted average no. of shares in issue throughout the year	584,138,346	485,999,406
Basic Loss per share	(1.56)p	(2.89)p
Diluted Loss per share	(1.56)p	(2.89)p

11. FIXED ASSETS

Cost	**Right-of-use assets £'000**	**Property & Equipment £'000**	**Total £'000**
At 31 December 2021	1,247	463	1,710
Additions in the year	-	17	17
Disposals	-	(20)	(20)
At 31 December 2022	1,247	460	1,707
Additions in the year	246	3	249
Disposals	(128)	(44)	(172)
At 31 December 2023	1,365	419	1,784

Accumulated depreciation	**Right-of-use assets £'000**	**Property & Equipment £'000**	**Total £'000**
At 31 December 2021	686	364	1,050
Charge in the year	197	55	252
Disposals	-	(20)	(20)
At 31 December 2022	883	399	1,282
Charge for the year	230	52	282
Disposals	(29)	(45)	(74)
At 31 December 2023	1,084	406	1,490
Net book value 31 December 2023	**281**	**13**	**294**
Net book value 31 December 2022	364	61	425

12. GOODWILL

	31 December 2023 £'000	31 December 2022 £'000
At 31 December 2022	14,255	22,894
Impairment of goodwill	-	(8,639)
Disposal of goodwill	(14,255)	-
At 31 December 2023	-	14,255

On 5 December 2023, the Group entered into a Joint Venture ("JV") agreement with Hawk Family Office Limited for a new bridge and development lending business in the Channel Islands. Sancus Lending (Jersey) Limited ("SLJL") entered into a Business and Asset Purchase Agreement ("BAPA") with Hawk Lending Limited (the previous lending business of Hawk Family Office Limited) and Hawkbridge Limited (the new joint venture lending business) ("Hawkbridge"). Under the terms of the BAPA, SLJL sold to Hawkbridge Limited its business as a going concern including goodwill, business information, moveable assets, records and third party rights. The consideration for the business of SLJL was the issue of 12 shares in the newly formed JV holding company, Hawkbridge Limited, giving Sancus Group Holdings Limited a 50% ownership in the JV. Hawkbridge Limited has two wholly owned subsidiaries, Hawkbridge Lending Limited and Westmead Debt Services Limited.

Under the joint venture shareholder agreement, all new Channel Islands lending business will be written through Hawkbridge. Hawkbridge will also provide administration and other services to SLJL and Hawk Lending Limited.

Following the sale of the business of SLJL to Hawkbridge Limited on 5 December 2023, the remaining business is in run off. As detailed in Note 9, the investment in the joint venture has been recognised separately on the Balance Sheet and reflects the value of the goodwill transferred in from SLJL under the BAPA.

13. OTHER INTANGIBLE ASSETS

Cost	**£'000**
At 31 December 2023, 31 December 2022 and 31 December 2021	**1,584**

Amortisation	**£'000**
At 31 December 2021	1,531
Charge for the year	53
At 31 December 2022	1,584
Charge for the year	-
At 31 December 2023	**1,584**
Net book value 31 December 2023	**-**
Net book value 31 December 2022	-

Other Intangible assets comprise capitalised contractors' costs and costs related to core systems development. The assets have been fully amortised.

14. OTHER ASSETS AND OTHER INVESTMENTS

	Development properties £'000
Cost	
At 31 December 2021	496
Additions	210
At 31 December 2022	706
Disposals	(706)
At 31 December 2023	**-**

Other assets are development properties previously held as security against certain loans which have defaulted. Other assets are held at the lower of cost and net realisable value. All development properties classified as Other Assets were sold during the period with a profit on disposal of £303,000 recognised in the Consolidated Statement of Comprehensive Income.

Other investments of £50,000 (2022: £100,000) represents the investment by the Group in non-voting capita in its Loan Note programme entities.

15. TRADE AND OTHER RECEIVABLES

	31 December 2023 £'000	31 December 2022 £'000
Loan fees, interest and similar receivables	7,235	4,673
Receivable from associated companies	-	5
Taxation	5	58
Other trade receivables and prepaid expenses	818	1,070
	8,058	5,806

Loan fees, interest and similar receivables amounted to £13,697,000 at 31 December 2023 (31 December 2022: £11,166,000) before provisions against receivables of £6,462,000 (31 December 2022: £6,493,000).

16. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE

Sancus has the power under its articles of association to issue an unlimited number of Ordinary Shares of no par value.

No Ordinary shares were issued during the year (2022: 94,294,869).

Share Capital – ordinary shares of nil par value

	31 December 2023 Number of shares	31 December 2022 Number of shares
At beginning of the year	584,138,346	489,843,477
Issued during the year	-	94,294,869
At end of the year	584,138,346	584,138,346

16. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE (continued)

Share Premium – Ordinary shares of nil par value

	31 December 2023 £'000	31 December 2022 £'000
At beginning of the year	118,340	116,218
Exercise of warrants	-	2,122
At end of the year	118,340	118,340

Ordinary shareholders have the right to attend and vote at Annual General Meetings and the right to any dividends or other distributions which the company may make in relation to that class of share.

Treasury Shares

	31 December 2023 Number of shares	31 December 2022 Number of shares
Balance at start and end of the year	11,852,676	11,852,676

	31 December 2023 £'000	31 December 2022 £'000
Balance at start and end of the year	1,172	1,172

Warrants in Issue

As at 31 December 2023 there were 89,396,438 (2022: 89,396,438) Warrants in issue to subscribe for new Ordinary Shares at a subscription price of 2.25 pence per ordinary share. The Warrants are exercisable on at least 30 days notice within the period ending 31 December 2025. The Warrants in issue are classified as equity instruments because a fixed amount of cash is exchangeable for a fixed amount of equity, there being no other features which could justify a financial liability classification. The fair value of the warrants at 31 December 2023 is £Nil (31 December 2022: £Nil).

17. LIABILITIES

Non-current liabilities	31 December 2023 £'000	31 December 2022 £'000
ZDP shares (1)	13,967	9,117
Corporate Bond (2)	14,950	14,925
Pollen Facility (3)	77,169	66,826
Lease liabilities (Notes 2(u) & 24)	130	152
	106,216	91,020

17. LIABILITIES (Continued)

Current liabilities	31 December 2023 £'000	31 December 2022 £'000
Accounts payable	126	224
Payable to associated companies	-	12
Interest payable	770	481
Accruals and other payables	799	1,472
Hedging Contracts	231	398
Taxation	76	145
Provisions for financial guarantees	18	413
Lease liabilities (Notes 2(u) & 24)	152	212
	2,172	3,357

Provisions for financial guarantees are recognised in relation to ECLs on off-balance sheet loans and receivables where the company has provided a subordinated position or other guarantee (Note 25). No such provision was required in the prior year. The fair value is determined using the exact same methodology as that used in determining ECLs (Note 2(f) and Note 22).

Interest costs on debt facilities	31 December 2023 £'000	31 December 2022 £'000
ZDP shares (1)	1,817	831
Corporate Bond (2)	1,075	920
Pollen Facility (3)	7,645	5,116
Lease Interest	25	38
	10,562	6,905

(1) ZDP shares

The ZDP Shares have a maturity date of 5 December 2027, following a 5 year extension of the final capital repayment approved on 5 December 2022. The final capital entitlement is £2.5332 per ZDP Share.

Under the Companies (Guernsey) Law, 2008 shares in the Company can only be redeemed if the Company can satisfy the solvency test prescribed under that law. Refer to the Company's Memorandum and Articles of Incorporation for full detail of the rights attached to the ZDP Shares. This document can be accessed via the Company's website www.sancus.com.

The ZDP shares bore interest at an average rate of 8% until 5 December 2022. As part of the extension agreement noted above the interest rate increased to an average of 9% per annum with effect from 5 December 2022, through to the final repayment date of 5 December 2027. In accordance with article 7.5.5 of the Company's Memorandum and Articles of Incorporation, the Company may not incur more than £30m of long term debt without prior approval from the ZDP shareholders. The Memorandum and Articles (section 7.6) also specify that two debt cover tests must be met in relation to the ZDPs. At 31 December 2023 the Company was in compliance with these covenants as Cover Test A was 2.21 (minimum of 1.7) and the adjusted Cover Test B was 3.15 (minimum of 2.05). At 31 December 2023 senior debt borrowing capacity amounted to £15m. The Pollen facility does not impact on this capacity as it is non-recourse to Sancus.

On 28 April 2023 the Company sold 2,068,966 ZDP shares, held in Treasury, to Somerston, the Groups largest shareholder, at a price of 145 pence per share being the mid-market closing price of the ZDP shares on 27 April 2023.

At 31 December 2023 the Company held 10,505,739 ZDP shares in Treasury (31 December 2022: 12,574,705) with an aggregate value of £19,291,480 (31 December 2022: £20,861,686).

17. LIABILITIES (Continued)

(2) Corporate Bond

The £15m (31 December 2022: £15m) Corporate bonds bear interest at 7% (2022: 7%). The bonds have a maturity date of 31 December 2025.

(3) Pollen Facility (previously HIT Facility)

On 28 January 2018, Sancus signed a funding facility with Honeycomb Investment Trust plc (HIT), now Pollen Street PLC ("Pollen"). The funding line initially had a term of 3 years and comprised of a £45m accordion and revolving credit facility. On 3 December 2020 this facility was extended to a 6 year term to end on 28 January 2024 and on 23 November 2022 this was extended further to 23 November 2026. In addition to the extension the facility was increased to £75m in December 2020 and to £125m in November 2022.

The Pollen facility has portfolio performance covenants including that actual loss rates are not to exceed 4% in any twelve month period and underperforming loans are not to exceed 10% of the portfolio. Sancus Group participates 10% on every drawdown with a first loss position on the Pollen facility. Sancus has also provided Pollen with a guarantee, capped at £4m that will continue to ensure the orderly wind down of the loan book, in the event of the insolvency of Sancus Group, given its position as facility and security agent. Refer to Note 25 Commitments and Guarantees.

18. TAXATION

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. A fixed annual fee of £1,200 (31 December 2022: £1,200) is payable to the States of Guernsey in respect of this exemption.

Reconciliation of tax charge

	2023 £'000	2022 £'000
Accounting loss before tax	(9,004)	(14,012)
Gibraltar Corporation Tax at 10% (2022: 10%)	-	-
Jersey Corporation Tax at 10% (2022: 10%)	-	-
Ireland Corporation Tax at 12.5% (2022: 12.5%)	133	68
Adjustments in respect of prior years	(3)	(18)
Tax expense	130	50

Certain of the Group's subsidiaries have an estimated £29m of losses between them available to carry forward to offset against qualifying future trading profits. The Group does not recognise deferred tax assets in respect of losses arising because in the opinion of the directors the quantum and timing of any suitable taxable profits which can utilise these losses is unknown.

19. NOTES TO THE CASH FLOW STATEMENT

Cash generated from operations (excluding loan movements)

	2023 £'000	2022 £'000
Loss for the year	(9,134)	(14,062)
Adjustments for:		
Net (losses)/gains on FinTech Ventures	(715)	894
Other net losses/(gains)	390	(86)
ZDP finance costs	1,791	807
Impairment of joint ventures	100	34
Changes in expected credit losses	4,817	418
Amortisation/depreciation of fixed assets	282	305
Impairment of goodwill	-	8,639
Amortisation of debt issue costs	396	225
Loss on disposal of subsidiary	(202)	-
Changes in working capital:		
Trade and other receivables	(7,116)	(392)
Trade and other payables	(1,243)	(330)
Cash outflow from operations (excluding loan movements)	(10,634)	(3,548)

Changes in liabilities arising from financing activities

The tables below detail changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	1 January 2023 £'000	Payments [1] £'000	Receipts [1] £'000	Debt issue costs [1] £'000	Amortisation of debt issue costs Non-cash £'000	Other Non-cash £'000	31 December 2023 £'000
ZDP Shares	9,117	-	3,000	32	27	1,791[2]	13,967
Corporate Bond	14,925	-	-	-	25	-	14,950
Pollen Facility	66,826	-	10,000	-	343	-	77,169
Lease Liability	364	(229)[1]	-	-	-	147	282
Total liabilities	**91,232**	**(229)**	**13,000**	**32**	**395**	**1,938**	**106,368**

	1 January 2022 £'000	Payments [1] £'000	Receipts [1] £'000	Debt issue costs [1] £'000	Amortisation of debt issue costs Non-cash £'000	Other Non-cash £'000	31 December 2022 £'000
ZDP Shares	10,532	(2,037)[1]	-	(167)	25	764[2]	9,117
Corporate Bond	12,474	-	2,425	-	26	-	14,925
Pollen Facility	52,203	-	15,250	(410)	177	(394)[2]	66,826
Lease Liability	576	(212)[1]	-	-	-	-	364
Total liabilities	75,785	(2,249)	17,675	(577)	228	370	91,232

[1] These amounts can be found under financing cash flows in the cash flow statement.
[2] Comprises interest accruals and unpaid debt issue costs where applicable.

20. CONSOLIDATED SUBSIDIARIES

The Directors consider the following entities as wholly owned subsidiaries of the Group as at 31 December 2023. Their results and financial positions are included within its consolidated results.

Subsidiary entity	Date of Incorporation	Country of Incorporation	Nature of Holding	% held
Sancus Group Holdings Limited	27 December 2013	Guernsey	Directly held -Equity Shares	100%
Sancus Lending (Jersey) Limited	1 July 2013	Jersey	Indirectly held - Equity Shares	100%
Sancus Lending (Guernsey) Limited	18 June 2014	Guernsey	Indirectly held - Equity Shares	100%
Sancus Lending (Ireland) Limited	10 April 2017	Ireland	Indirectly held - Equity Shares	100%
Sancus Lending (UK) Limited	17 February 2011	UK	Indirectly held - Equity Shares	100%
Sancus Holdings (UK) Limited	7 January 2011	UK	Indirectly held - Equity Shares	100%
FinTech Ventures Limited	9 December 2015	Guernsey	Directly held - Equity Shares	100%
Sancus Properties Limited	21 August 2018	Guernsey	Indirectly held - Equity Shares	100%
Sancus Loans Limited	3 July 2017	UK	Indirectly held – Equity Shares	100%
Sancus Loans No2 Limited	19 July 2023	UK	Indirectly held – Equity Shares	100%

Sancus Group Holdings Limited and Sancus Holdings (UK) Limited act as holding companies. Sancus Properties Limited engages in property development. Fintech Ventures Limited is an investment company, investing in Fintech companies. The activities of the remaining companies named above relate to the core business of lending.

21. FINTECH VENTURES AND OTHER INVESTMENTS

The Directors consider the following entities as associated undertakings of the Group as at 31 December 2023.

Name of Investment:	Nature of holding	Country of incorporation	Percentage holding	Measurement
FinTech Ventures:				
Ovamba Solutions Inc	Indirectly held - Equity	United States of America	20.18%	Fair Value

The percentage holdings in the above table are on a fully diluted basis, assuming any warrants and management options all vest. In the previous year the Group held an investment in Finexkap, which was dissolved in the year.

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Sancus loans and loan equivalents	**31 December 2023 £'000**	**31 December 2022 £'000**
Non-current		
Sancus loans	-	171
Sancus Loans Limited loans	10,148	23,693
Total non-current Sancus loans and loan equivalents	**10,148**	**23,864**
Current		
Sancus loans	460	2,790
Sancus Loans Limited loans	68,157	49,471
Total current Sancus loans and loan equivalents	**68,617**	**52,261**
Total Sancus loans and loan equivalents	**78,765**	**76,125**

Fair Value Estimation

The financial assets and liabilities measured at fair value in the Consolidated Statement of Financial Position are grouped into the fair value hierarchy as follows:

	31 December 2023		**31 December 2022**	
	Level 2 £'000	**Level 3 £'000**	**Level 2 £'000**	**Level 3 £'000**
FinTech Ventures investments	-	-	-	-
Derivative contracts	(231)	-	(398)	-
Total assets at Fair Value	(231)	-	(398)	-

All of the FinTech Ventures investments are categorised as Level 3 in the fair value hierarchy. In the past the Directors have estimated the fair value of financial instruments using discounted cash flow methodology, comparable market transactions, recent capital raises and other transactional data including the performance of the respective businesses. Having considered the terms, rights and characteristics of the equity and loan stock held by the Group in the FinTech Ventures investments, the Board's estimate of liquidation value of these assets is £Nil at 31 December 2023 (31 December 2022: £Nil). Changes in the performance of these businesses and access to future returns via its current holdings could affect the amounts ultimately realised on the disposal of these investments, which may be greater or less than £Nil. There have been no transfers between levels in the period (2022: None).

FinTech Ventures investments

31 December 2023	**Equity £'000**	**Loans £'000**	**Total £'000**
Opening fair value	-	-	-
New investments/divestments	-	(715)	(715)
Realised gains recognised in profit and loss	-	715	715
Closing fair value	-	-	-

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

FinTech Ventures investments (continued)

31 December 2022	Equity £'000	Loans £'000	Total £'000
Opening fair value	-	500	500
New investments/divestments	-	394	394
Realised gains recognised in profit and loss	-	(894)	(894)
Closing fair value	-	-	-

Assets at Amortised Cost

	31 December 2023 £'000	31 December 2022 £'000
Sancus loans and loan equivalents	78,765	76,125
Trade and other receivables	7,240	4,736
Cash and cash equivalents	4,990	4,134
Total assets at amortised cost	90,995	84,995

Due to the relatively short-term nature of the above assets, their carrying amount is considered to be the same as their fair value.

Liabilities at Amortised Cost

	31 December 2023 £'000	31 December 2022 £'000
ZDP Shares	13,967	9,117
Corporate Bond	14,950	14,925
Pollen Facility	77,169	66,826
Trade and other payables	2,053	2,698
Provisions in respect of guarantees	18	413
Total liabilities at amortised cost	108,157	93,979

Refer to Note 17 for further information on liabilities.

Risk Management

The Group is exposed to financial risk through its investment in a range of financial instruments, i.e. in the equity and debt of investee companies and through the use of debt instruments to fund its investment in loans. Such risks are categorised as capital risk, liquidity risk, investment risk, credit risk, and market risk (market price risk, interest rate risk and foreign currency risk).

Comments supplementary to those on risk management in the Corporate Governance section of this report are included below.

(1) Capital Risk Management

The Group's capital comprises ordinary shares as well as a number of debt instruments. Its objective when managing this capital is to enable the Group to continue as a going concern in order to provide a consistent appropriate risk-adjusted return to shareholders, and to support the continued development of its investment activities. Details of the Group's equity is disclosed in Note 16 and of its debt in Note 17.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(1) Capital Risk Management (continued)

The Group and its subsidiaries (with the exception of Sancus Lending (UK) Limited, which is regulated by the FCA) are not subject to regulatory or industry specific requirements to hold a minimum level of capital, other than the legal requirements for Guernsey incorporated entities. The Group considers the amount and composition of its capital is currently in proportion to its risk profile.

(2) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the group held cash of £4,990,000. The Group Treasury Committee monitors rolling forecasts of the group’s cash position in relation to its obligations as they become due on a monthly basis. In addition, the group’s liquidity management involves projecting cash flows and considering the level of liquid assets necessary to meet obligations. Where necessary contingency plans are made to realise assets which are reasonably liquid in the short term.

The following table analyses the Group's financial liabilities into relevant maturity groupings based on the period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	**Within 12 months £’000**	**Between 1 and 2 years £’000**	**Between 2 and 5 years £’000**	**Total £’000**
31 December 2023				
ZDP shares	-	-	13,967	13,967
Corporate bond	-	14,950	-	14,950
Sancus Loans Limited	-	-	77,169	77,169
Trade and other payables	2,085	180	37	2,302
Total liabilities	**2,085**	**15,130**	**91,173**	**108,388**

Contractual maturities of financial liabilities	**Within 12 months £’000**	**Between 1 and 2 years £’000**	**Between 2 and 5 years £’000**	**Total £’000**
31 December 2022				
ZDP shares	-	-	9,117	9,117
Corporate bond	-	-	14,925	14,925
Sancus Loans Limited	-	-	66,826	66,826
Trade and other payables	3,357	85	67	3,509
Total liabilities	**3,357**	**85**	**90,935**	**94,377**

(3) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates and that mismatches in the interest rates applying to assets and liabilities will impact on the Group’s earnings.

The Group’s cash balances, debt instruments and loan notes are exposed to interest rate risk.

The Group did not enter into any interest rate risk hedging transactions during the current or prior years.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(3) Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risk:

31 December 2023	Floating rate Financial Instruments £'000	Fixed Rate Financial Instruments £'000	Total £'000
Assets			
Sancus loans and loan equivalents	64,586	14,179	78,765
Cash and cash equivalents	4,990	-	4,990
Total assets	69,576	14,179	83,755
Liabilities			
ZDP shares	-	13,967	13,967
Corporate Bond	-	14,950	14,950
Sancus Loans Limited	-	77,169	77,169
Total liabilities	-	106,086	106,086
Total interest sensitivity gap	69,576	(91,907)	(22,331)

31 December 2022	Floating rate Financial Instruments £'000	Fixed Rate Financial Instruments £'000	Total £'000
Assets			
Sancus loans and loan equivalents	7,194	68,931	76,125
Cash and cash equivalents	4,134	-	4,134
Total assets	11,328	68,931	80,259
Liabilities			
ZDP shares	-	9,117	9,117
Corporate Bond	-	14,925	14,925
Sancus Loans Limited	-	66,826	66,826
Total liabilities	-	90,868	90,868
Total interest sensitivity gap	11,328	(21,937)	(10,609)

Interest rate sensitivities

The Group currently holds £4,990,000 in cash deposits, predominantly in sterling. Whilst interest rates are currently positive they have, in the recent past, gone negative in certain jurisdictions. At the current level of cash deposits this could cost the group £49,900 per annum for every 1% decrease in interest rates. The Group does not hold significant amounts in foreign currencies for any period of time.

The Treasury Committee reviews interest rate risk on an ongoing basis, and the exposure is reported quarterly to the Board and/or Audit and Risk Committee.

(4) Investment risk

Investment risk is defined as the risk that an investment's actual return will be different to that expected. Historically investment risk primarily arose from the Group's investment in its FinTech Ventures portfolio (see Note 3). This risk was in turn driven by the underlying risks taken by the platforms themselves – their own strategic, liquidity, credit and operational risks. Given that the Fintech portfolio is now held at £Nil the Group has no further exposure to investment risk, but does still retain investments in a number of Fintech companies.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(4) Investment risk (continued)

The Group measures fair values of the Fintech Portfolio using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1 – Inputs that are quoted market prices (unadjusted) in active markets for identical instruments. A market is regarded as "active" if transactions of the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. The Group measures financial instruments quoted in an active market at a bid price.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

- Level 3 – Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments. If in the case of any investment the Directors at any time consider that the above basis of valuation is inappropriate or that the value determined in accordance with the foregoing principles is unfair, they are entitled to substitute what in their opinion, is a fair value. In this case, the fair value is estimated with care and in good faith by the Directors in consultation with the Executive Management Team with a view to establishing the probable realisation value for such shares as at close of business on the relevant valuation day.

All of the FinTech Ventures investments are categorised as Level 3 in the fair value hierarchy. In the past the Directors have estimated the fair value of financial instruments using discounted cash flow methodology, comparable market transactions, recent capital raises and other transactional data including the performance of the respective businesses. Having considered the terms, rights and characteristics of the equity and loan stock held by the Group in the FinTech Ventures investments, the Board's estimate of liquidation value of these assets is £Nil at 31 December 2023 (31 December 2022: £Nil). Changes in the performance of these businesses and access to future returns via its current holdings could affect the amounts ultimately realised on the disposal of these investments, which may be greater or less than £Nil. There have been no transfers between levels in the period (2022: None).

(5) Credit risk

Credit risk is defined as the risk that a borrower/debtor may fail to make required repayments within the contracted time scale. The Group invests in senior debt, senior subordinated debt, junior subordinated debt and secured loans. Credit risk is taken in direct lending to third party borrowers, investing in loan funds, lending to associated platforms and loans arranged by associated platforms.

The Group mitigates credit risk by only entering into agreements related to loan instruments in which there is sufficient security held against the loans or where the operating strength of the investee companies is considered sufficient to support the loan amounts outstanding.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(5) Credit risk (continued)

Credit risk is determined on initial recognition of each loan and re-assessed at each reporting date. The risk assessment is undertaken by the Executive Management Team at the time of the agreements, and the Executive Management Team continues to evaluate the loan instruments in the context of these agreements. Credit risk is categorised into Stage 1, Stage 2 and Stage 3 with Stage 1 being to recognise 12 month Expected Credit Losses (ECL), Stage 2 being to recognise Lifetime ECL not credit impaired and Stage 3 being to recognise Lifetime ECL credit impaired.

Credit risk is initially evaluated using the LTV, (LTGDV and LTF where relevant) and the circumstances of the individual borrower. For the majority of loans security takes the form of real estate. There has been no significant change in the quality of this security over the prior year. When determining credit risk macro-economic factors such as GDP, unemployment rates and other relevant factors including the war in Ukraine are also taken into account. A loan is considered to be in default when there is a failure to meet the legal obligation of the loan agreement. Having regards to the principles of IFRS 9 this would also include provisions against loans that are considered by management as unlikely to pay their obligations in full without realisation of collateral. Once identified as being in default a re-assessment of the credit risk of that loan will be undertaken using the factors as noted above. A decision will then be made as to whether to credit impair that asset.

In some instances borrowers will request loan modifications, extensions or renegotiation of terms. Any such event will trigger a reassessment of the credit risk of that loan where the reasons for the modification, extension or renegotiation will be carefully assessed and may result in that asset being credit impaired.

The entities in the Sancus Lending Group operate Credit Committees which are responsible for evaluating and deciding upon loan proposals, as well as monitoring the recoverability of loans, and taking action on any doubtful accounts. All lending undertaken by Sancus Lending is secured. The credit committee reports to the Sancus Lending Board on a quarterly basis.

Provision for ECL

A probability of default is assigned to each loan. This probability of default is arrived at by reference to historical data and the ongoing status of each loan which is reviewed on a regular basis. The loss given default is deemed to be nil where LTV is equal to or less than 65%, as it is assumed that the asset can be sold and full recovery made.

Provision for ECL is made using the credit risk, the probability of default (PD) and the loss given default (PL) all of which are underpinned by the Loan to Value (LTV), historical position, forward looking considerations and on occasion, subsequent events and the subjective judgement of the Board. Preliminary calculations for ECL are performed on a loan by loan basis using the simple formula Outstanding Loan Value (exposure at default) x PD x PL and are then amended as necessary according to the more subjective measures as noted above.

To reflect the time value of money ECL is discounted back to the reporting date using the effective interest rate of the asset (or an approximation thereof) that was determined at initial recognition.

The following tables provide information on amounts reserved for ECL on loans and loan equivalents as at 31 December 2023 and 31 December 2022 based on the model adopted by management.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(5) Credit risk (continued)

Provision for ECL (Continued)

Sancus loans and loan equivalents at 31 December 2023	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Closing loans at 31 December 2022	61,932	-	14,193	76,125
New Loans	44,199	-	421	44,620
Loans Repaid	(33,733)	-	(6,598)	(40,331)
Transfers from Stage 1 to Stage 3	(6)	-	6	-
Movement in ECL	-	-	(1,649)	(1,649)
Closing loans at 31 December 2023	72,392	-	6,373	78,765

Loss allowance at 31 December 2023	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Closing loss allowance at 31 December 2022	-	-	6,835	6,835
Increase in provision	-	-	1,649	1,649
Closing loss allowance at 31 December 2023	**-**	**-**	**8,484**	**8,484**

For certain loans the range of outcomes for loss given default considered by the Directors is significant and therefore has a material impact on the calculation of ECL.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(5) Credit risk (continued)

Provision for ECL (continued)

Sancus loans and loan equivalents at 31 December 2022	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Closing loans at 31 December 2021	30,060	5,743	17,441	53,244
New Loans	48,986	-	421	49,407
Loans Repaid	(17,109)	(2,776)	(6,215)	(26,100)
Transfers from Stage 1 to Stage 3	(5)	-	5	-
Transfers from Stage 2 to Stage 3	-	(2,967)	2,967	-
Movement in ECL	-		(426)	(426)
Closing loans at 31 December 2022	61,932	-	14,193	76,125

Loss allowance at 31 December 2022	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Closing loss allowance at 31 December 2021	-	-	6,409	6,409
Increase in provision	-	-	426	426
Closing loss allowance at 31 December 2022	**-**	**-**	**6,835**	**6,835**

Reconciliation of Provision for ECLs to charge in the statement of comprehensive income

	Loans £'000	**Trade Receivables £'000**	**Guarantees £'000**	**Total £'000**
Loss allowance at 31 December 2022	6,835	6,493	413	13,741
Charge/(credit) for the year	4,032	1,180	(395)	4,817
Utilisations	(2,383)	(1,211)	-	(3,594)
Loss allowance at 31 December 2023	**8,484**	**6,462**	**18**	**14,964**

For certain loans the range of outcomes for loss given default considered by the Directors is significant and therefore has a material impact on the calculation of ECL.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT (Continued)

(6) Market price risk

The Group has no exposure to market price risk of financial assets valued on a Level 1 basis as disclosed earlier in this note.

(7) Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Investments made in currencies other than Sterling are currently valued at £Nil and therefore there is no exposure.

The exchange rates used by the Group to translate foreign currency balances are as follows:

Currency	31 December 2023	31 December 2022	31 December 2021
EUR	1.1534	1.1284	1.1898
USD	1.2731	1.2101	1.3527

The Treasury Committee monitors the Group's currency position on a regular basis, and the Board of Directors reviews it on a quarterly basis. Loans denominated in Euros which are taken out through the Pollen facility are hedged using forward contracts. The following forward foreign exchange contracts were open at the respective dates:

At 31 December 2023

Counterparty	Settlement date	Buy Currency	Buy Amount £'000	Sell currency	Sell amount €'000	Unrealised loss £'000
Alpha	December 2023 to January 2024	GBP	7,710	Euro	9,000	(97)
Lumon Risk Management	December 2023 to January 2024	GBP	23,851	Euro	27,640	(134)
Unrealised loss on forward foreign contracts						(231)

At 31 December 2022

Counterparty	Settlement date	Buy Currency	Buy Amount £'000	Sell currency	Sell amount €'000	Unrealised loss £'000
EWealthGlobal Group Limited	January 2023 to May 2023	GBP	3,565	Euro	4,187	(144)
Liberum Wealth Limited	January 2023 to February 2023	GBP	3,202	Euro	3,650	(35)
Lumon Risk Management	January 2023 to May 2023	GBP	9,259	Euro	10,676	(219)
Unrealised loss on forward foreign contracts						(398)

23. RELATED PARTY TRANSACTIONS

Transactions with the Directors/Executive Management Team

Non-executive Directors

As at 31 December 2023, the non-executive Directors' annualised fees, excluding all reasonable expenses incurred in the course of their duties which were reimbursed by the Company, were as detailed in the table below:

	31 December 2023 £	**31 December 2022 £**
Tracy Clarke (stepped down as non-executive director 30 March 2023, reappointed 31 March 2024)	106,250	35,000
Steven Smith	50,000	50,000
John Whittle	42,500	42,500

Tracy Clarke was appointed Interim Group CFO and joined the Executive Team on 30 March 2023. She subsequently stepped down on 31 March 2024 and returned to her role of non-executive Director. Fees paid to her include £97,500 in respect of her role as Interim CFO.

Total Directors' fees charged to the Company for the year ended 31 December 2023 were £198,750 (31 December 2022: £127,500) with £Nil (31 December 2022: £Nil) remaining unpaid at the year-end.

Executive Management Team

The Executive Management Team consisted of Rory Mepham, James Waghorn and Tracy Clarke (appointed 30 March 2023, resigned 31 March 2024). Emma Stubbs and Helen Trott resigned as Executive Directors of the Company on 30 March 2023 and 14 July 2023 respectively. The Executive Management Team members' remuneration from the Company, excluding all reasonable expenses incurred in the course of their duties which were reimbursed by the Company, was as detailed in the table below:

	2023 £'000	**2022 £'000**
Aggregate remuneration in respect of qualifying service – fixed salary	612	512
Aggregate amounts contributed to Money Purchase pension schemes	17	21
Aggregate bonus paid (cash)	-	50

See remuneration report for further details. All amounts have been charged to Operating Expenses.

On 30 March 2023 Carlton Management Services Limited ("Carlton"), was appointed to manage and develop the Group's finance function, including new technology integrations for forecasting, performance and treasury management under a service agreement. The agreement was terminated on 31 March 2024. The annualised fee for the service was £170,000. Carlton sub-lease office space in the Group's offices in Jersey, with a sub lease end date of 31 August 2024, at an annual cost of c.£100,000 p.a.

On 30 March 2023 Carlton entered into a Director service agreement with Sancus Lending Group Limited for the provision of Tracy Clarke as Interim Group CFO, with an annual fee of £130,000. This agreement terminated on 31 March 2024.

Tracy Clarke is Managing Director of Carlton Management Services Limited.

23. RELATED PARTY TRANSACTIONS (continued)

From time to time, the Somerston Group may participate as a Co-Funder in Sancus loans, on the same commercial terms available to other Co-Funders. The Group has not recorded any other transactions with any Somerston Group companies for the year ended 31 December 2023 (2022: none).

Directors' and Persons Discharging Managerial Responsibilities ("PDMR") shareholdings in the Company

The Directors and PDMRs had the following beneficial interests in the Ordinary Shares of the Company:

	31 December 2023		31 December 2022	
	No. of Ordinary Shares Held	% of Ordinary Shares	No. of Ordinary Shares Held	% of Ordinary Shares
John Whittle	138,052	0.02	138,052	0.02
Emma Stubbs	1,380,940	0.24	1,380,940	0.24
Rory Mepham	2,000,000	0.34	-	-

During the year and prior year no directors received dividends on their Ordinary Share holdings in the Company.

In addition to their Sancus salaries, Mr Mepham and Mr Waghorn also receive other emoluments from Somerston for services they provide to other Somerston entities that are not related to the activities of Sancus.

From time to time members of key management personnel participate as co-funders in loans originated by the Group.

Transactions with connected entities

The following transactions with connected entities took place during the year:

	31 December 2023 £'000	31 December 2022 £'000
Net receivable from/ (payable to) related parties		
Amberton Limited	-	(7)
Office and staff costs recharges		
Amberton Limited	-	47

There is no ultimate controlling party of the Company.

24. LEASES

The Group as Lessee

Maturity Analysis – contracted undiscounted cash flows

	31 December 2023 £'000	31 December 2022 £'000
Within one year	207	247
In the second to fifth years inclusive	137	166
After five years	-	-
	344	413

All lease commitments relate to office space.

24. LEASES (continued)

Lease liabilities included in the statement of financial position

	31 December 2023 £'000	31 December 2022 £'000
Current	152	212
Non-current	130	152
	282	364

Amounts recognised in the statement of comprehensive income

	2023 £'000	2022 £'000
Depreciation expense on right-of-use assets	227	197
Interest expense on lease liabilities	24	38
Expense related to short term leases	258	149
Income received from sub-leasing right-of-use assets	116	33

25. COMMITMENTS AND GUARANTEES

The Group's commitments and guarantees are described below.

Pollen Facility

Sancus Group participates 10% on every loan funded by the Pollen facility, taking a first loss position. Sancus Group Lending Limited has provided Pollen with a guarantee capped at £4m following the restructure of the Pollen facility in November 2022 (previously was capped at £2m) and that it will continue to ensure the orderly wind down of the Pollen funded loan book, in the event of the insolvency of Sancus Group, given its position as facility and security agent. No provision has been provided in the financial statements (2022: £Nil).

Sancus Loan Notes

Loan Note 7 was launched in May 2021 and was repaid in September 2023.

Loan Note 8 was launched in January 2022 and currently stands at c.£30.0m. Loan Note 8 matures on 1 December 2026 and has a coupon of 8% p.a. (payable quarterly), with Sancus providing a 20% first loss guarantee.

Unfunded Commitments

As at 31 December 2023 the Group has unfunded commitments of £72.5m (31 December 2022: £73.9m). These unfunded commitments primarily represent the undrawn portion of development finance facilities. Drawdowns are conditional on satisfaction of specified conditions precedent, including that the borrower is not in breach of its representations or covenants under the loan or security documents. The figure quoted is the maximum exposure assuming that all such conditions for drawdown are met. Directors expect the majority of these commitments to be filled by Co-Funders.

26. LOSS ON DISPOSAL OF SUBSIDIARY

On 15 March 2023, the Company announced the sale of Sancus Lending (Gibraltar) Limited for £10,000. A loss on disposal of £202, being the difference between the net assets of Sancus Lending (Gibraltar) Limited and sale proceeds on disposal has been recognised in the Consolidated Statement of Comprehensive Income.

27. EVENTS AFTER THE REPORTING DATE

In April 2024, Somerston Fintech Limited, a subsidiary of Somerston Group, the majority shareholder of the Company, subscribed for £5,000,000 of preference shares in Sancus Loans Limited ("Sancus Loans"). The Preference Shares have a non-cash, cumulative coupon of 15% and a maturity date of 23 November 2026. The proceeds of the subscription were used to strengthen the liquidity of Sancus Loans. Approximately £4m of these proceeds will be available for transfer from Sancus Loans to other Group subsidiaries in order to provide the Group with additional corporate flexibility and working capital.

The Company purchased 1,388,889 Zero Dividend Preference shares of no par value at a price of £1.08 per ZDP share on 29 April 2024. All of the ZDP shares purchased will be held as treasury shares. Following this transaction, the Company has 18,169,461 ZDP Shares in issue, of which 11,894,628 ZDP Shares are held by the Company as treasury shares. The total number of ZDP Share voting rights is therefore 6,274,833.

Sancus Lending Group Limited
For the year ended 31 December 2023
OFFICERS AND PROFESSIONAL ADVISERS

Directors	
Non-executive	Stephen Smith John Richard Whittle Tracy Clarke (resigned 30 March 2023, reappointed 31 March 2024)
Executive	Rory Mepham Emma Stubbs (resigned 30 March 2023) Tracy Clarke (appointed 30 March 2023, resigned 31 March 2024)

The address of the Directors is the company's registered office

Executive Management Team	
Chief Executive Officer	Rory Mepham
Chief Financial Officer	Keith Lawrence (appointed 31 March 2024); Tracy Clarke (resigned 31 March 2024)
Chief Investment Officer	James Waghorn
Registered Office	Suite 1, First Floor Windsor House, Lower Pollet St Peter Port Guernsey, GY1 1WF
Nominated Advisor and Broker	Liberum Capital Limited Ropemaker Place 25 Ropemaker Street London, EC2Y 9LY
Company Secretary	Sanne Fund Services (Guernsey) Limited 1 Royal Plaza Royal Avenue St Peter Port Guernsey, GY1 2HL
Legal Advisors, Offshore	Carey Olsen PO Box 98 Carey House Les Banques St Peter Port Guernsey, GY1 4BZ

OFFICERS AND PROFESSIONAL ADVISERS (continued)

Legal Advisors, UK	Stephenson Harwood 1 Finsbury Circus London, EC2M 7SH
Legal Advisors, USA	Troutman Pepper 3000 Two Logon Square Eighteenth and Arch Streets Philadelphia, PA 19103-2799
Bankers	Barclays International 1st Floor, 39041 Broad Street St Helier Jersey, JE4 8NE
Auditors	Moore Kingston Smith LLP 9 Appold Street London EC2A 2AP
Registrar	Link Market Services Limited The Registry, 34 Beckenham Road Beckenham Kent, BR3 4TU
Public Relations	Instinctif Partners Limited 65 Gresham Street London, EC2V 7NQ