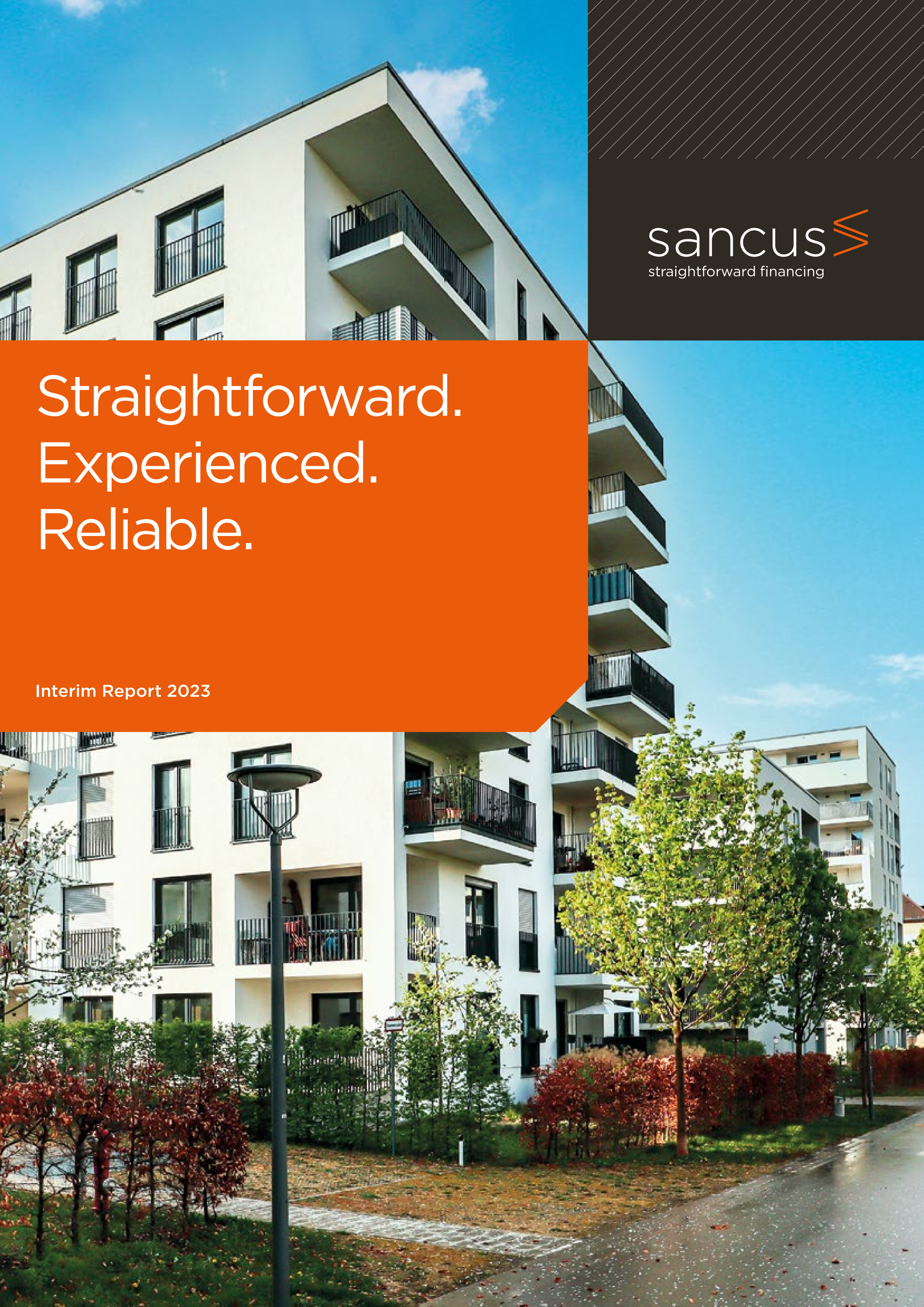
sancus
straightforward financing

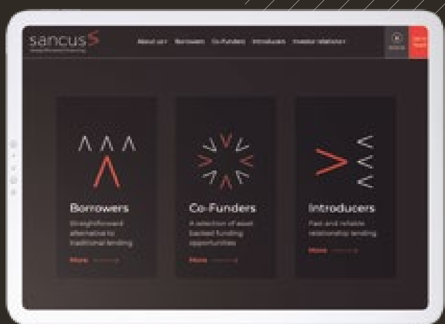
# Straightforward. Experienced. Reliable.

Interim Report 2023



Sancus Lending Group Limited is an AIM listed alternative finance provider, offering Borrowers fast, bespoke bridging and development finance and Co-funders a range of asset backed funding opportunities.

Find out more
online
**www.sancus.com**



# Contents



## Message from our CEO

**Rory Mepham**
**Chief Executive Officer of Sancus Lending Group Limited**

> Read more on page 04

"We started 2023 cautiously but with cause for optimism. However, the uncertainty in residential real estate markets in the jurisdictions in which we operate, together with the impact of inflation and rising interest rates, has led to a slow down in loan origination in H1 2023 as we became more selective from both a credit and loan pricing perspective.

The refinance and extension of the ZDP share final entitlement to December 2027, and the increase and extension of the Pollen Street Plc facility up to £125m (expiry not before November 2026) at the end of 2022, provide the Company with a more stable base from which to grow when the right opportunities present themselves, in the meantime caution shall prevail.

# Highlights

## Financial highlights

- New loan facilities written H1 2023 of £83m (H1 2022: £86m);
- Group revenue H1 2023 of £5.4m (H1 2022: £4.8m);
- Group operating loss H1 2023 of £3.8m (H1 2022: loss £2.1m);
- £3m of ZDP shares held in Treasury were sold to the Group's largest shareholder, Somerston, providing further growth capital;
- An increase in IFRS 9 provisions H1 2023 of £0.8m (H1 2022: £nil).

## Operational highlights

- The Company completed its office rationalisation program in H1 2023, and now operates from three locations, Jersey; Dublin and London, to align with its core lending markets and optimise costs;
- Geographic focus remains unchanged, with three core markets UK, Ireland and Offshore. Offshore represent 42% of the current loan book, UK 39% and Ireland 19%. Ireland is the fastest growing market with a 52% increase in loans under management in H1 2023;
- The Company continues to seek ways to reduce its operational costs. Headcount was further reduced during the period from 39 to 31 FTE;
- Since onboarding Salesforce software at the end of 2022, significant progress has been made with implementation and use of technology to manage workflows, standardisation of process and controls across the lending life cycle and integration with the Company's propriety loan management system;
- Focus on maintaining credit discipline has remained.

Chairman's statement

# Discipline coupled with opportunity


## Introduction

In the last 12 months the Company has made advances in its structural change program, and whilst operational progress is not reflected in the results for the H1 2023, we expect to see benefits in H2 2023 and beyond. In H1 2023 the Company reported a loss of £3.3m, and the loan book has remained flat since Dec 2022 at £169m, a reflection of robust credit discipline and a cautious approach to loan deployment, particularly in the UK. The cost of Funding has increased and we are now operating in the highest interest rate environment since 2008. Careful use of Group capital, and draw-down from our funding sources, is paramount to the successful navigation of a very tough market environment, but in spite of these exacting circumstances demand in our chosen markets remains firm and we believe may present opportunities for the Company to grow in the coming period.

## Our people

As noted in our FY22 results, we did not expect to increase headcount in 2023, and we took the opportunity to reduce Group headcount further to 31 as at 30 June 2023 (31 December 2022: 39).

As detailed in the 2022 Annual Report, Tracy Clarke was appointed as Group CFO on 30 March 2023 and Carlton Management Services Limited was appointed to restructure the Group Finance Function. The migration of the Group Finance Function under Tracy's leadership was completed in Q2 2023.

## Capital Raise

A significant milestone at the end of 2022 was the extension of the ZDP final entitlement date from 5 December 2022 to 5 December 2027. In addition, £3m of ZDP shares held in Treasury were sold to Somerston, the Company's largest shareholder, in April 2023, providing the company with additional growth capital. I thank our ZDP shareholders for their continued support.

## Dividend and Shareholders

It is the Board's intention to reinvest surplus resources for growth. As such, the Group does not intend to declare a dividend for the period. The Board intends to revisit this policy at the appropriate time, should the profitability and cash flow profile support the reinstatement of a dividend.

On behalf of the Board, I would like to thank shareholders for their continuing support and patience and for the efforts of the management and employees.

As I noted in the Chairman's statement in the 2022 annual report, we do not underestimate the scale and continuing challenges ahead. I remain of the view that we have the right strategy, systems and personnel to put the business onto a firmer footing and return to profitability and I look forward to reporting more positive developments in the coming period.

**Steve Smith**
**Chairman**

19 September 2023

# Sourcing of funding is key for growth


### Strategic KPIs

The Board are providing an update to the Strategic KPIs set out in the 2022 Annual report:

| | |
|---|---|
| Revenue growth | > Revenue is up 12% compared to the same period last year, with new loan origination being almost exclusively priced using variable interest rates. |
| Growing loans under management | > Loan book/Assets Under Management remains unchanged from 31 December 2022 to 30 June 2023 at £169m. |
| Reducing cost of funding | > Reducing cost of Funding remains a priority, but also continues to present a challenge in the current macro-economic environment. It is pleasing to report we saw a modest increase in Funding through the Sancus Loan Note program in H1 2023 of £10m, an increase of 50%. |
| Become a capital efficient business | > The amount of own capital within loans continues to be maintained at a low level, which at 30 June 2023 represented 4.5% of the total loan book, in comparison to 4.2% at 30 June 2022. |
| Increasing operating profits – by increasing gross margin and reducing costs | > Gross profit margin in H1 2023 was £0.3m, compared to H1 2022, £1.2m. The reduction is due to the financing cost of £3m additional ZDPs held by shareholders, an increase in the ZDP coupon from 8% to 9% and the run off of the legacy loan book priced at fixed interest rates whilst the cost of Funding those loans has increased.<br>> Operating costs are flat compared to the same period last year at £3.3m and are expected to reduce in the H2 2023 due to the effect of Group cost saving initiatives, in particular, reduction in headcount and premises costs. |
| Return on Equity ("ROE") | > Going forward we plan to become profitable and increase our ROE. We are also focused on reducing the need for additional capital to participate in Loan funding to support ROE. |
| Ensuring a risk based approach is taken on all decision making | > We have embedded institutional credit processes across the Group. We continue to increase our technology enablement to streamline processes, improve the delivery and format of management information to aid decision making and improve internal controls. |

## Chief Executive Officer's review continued

### Overview
In the first half year of 2023 we have taken a number of steps to position the Company on the road to profitability and to simplify the core business of residential development and bridge financing. We reduced the number of physical office locations from five to three with the sale of Gibraltar and closure of Guernsey during the period.

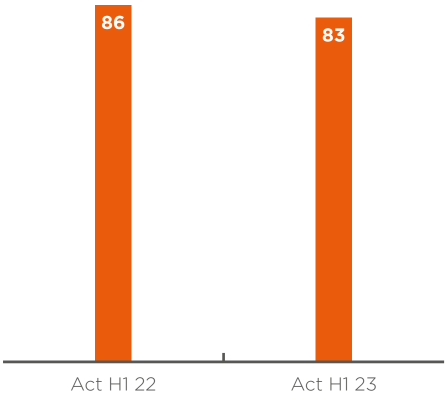
Loan book origination in H1 2023 was £83m versus £86m written in H1 2022. Opportunities to lend more have been considered but rejected where the return to risk ratio was considered inappropriate. The Credit team have adjusted their underwriting approach and attitude to risk accordingly, to ensure optimal use of Group capital, strict loan pricing discipline and particular focus on valuation assessment in the current uncertain environment. Despite some headwinds the residential lending market continues to present significant opportunity for Alternative Lenders, including Sancus, in all of our three core geographic markets.

### Origination
We have new loan facilities written during the H1 2023 of £83m compared with £86m in H1 2022 and £156m in FY 2022.

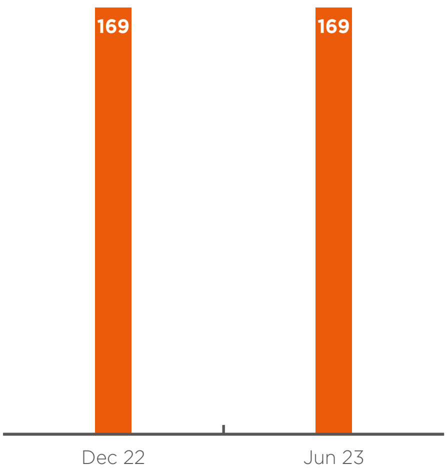
Maintaining a high-quality credit process whilst cautiously scaling the quantity of new loans remains a priority. We expect to see ample opportunities to lend in each of our markets and are confident that our businesses in these jurisdictions are well placed to execute as suitable opportunities arise.

### Loan management

**New Facilities Written**




**Loans Under Management**




Assets Under Management have not changed since the end of 2022 at £169m. With the number of new facilities written, and as we see funds deployed, we expect to be reporting a moderate increase in our loan book by 31 December 2023.

Continued emphasis has been placed on actively managing loans once the initial drawdown has been made. This has been particularly important during a time when various market related pressures such as cost inflation are impacting our borrowers. Active management is helping us to deal with issues before they become problems and we are pleased to report that the percentage of loan book in recovery continues to reduce.

### Funding
We continue to concentrate on growing the funding capacity of the business, on improved terms. This is particularly important in the context of the wider economic climate where we are in a significant inflationary environment. Additionally, 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. Currently, the Group is reliant on four funding sources:

- Co-Funders
- Loan Note program
- Institutional funders
- Proprietary capital

Sancus has an institutional funding line from Pollen Street Plc ("Pollen"), that is designed to complement our Co-Funder funding base and Sancus Loan Note program. As at 30 June 2023 the total drawn from the Pollen facility was £77.75m (31 December 2022: £67.75m). The Pollen facility continues to be strategic for the business.

The availability, cost and flexibility of funding is key to achieving our growth ambitions and we are reviewing the capital position of the business with a view to ensuring it is best placed to grow funding capacity on market adjusted improved terms. During the first half of 2023 the loan book funded by institutional funding increased by 5% with the majority of the UK and Irish loan book funded by this channel.

## Finance & operations

An emphasis on operational efficiencies within Finance & Operations, driven by technology where possible, is well underway. We continue to drive improvement in relation to Corporate Governance, Compliance & Risk with the implementation of a developed risk management structure to ensure the business is well set for future growth plans.

Sancus has developed, and continues to evolve, its own proprietary loan management system ("LMS") for the administration of loans and customise the use of Salesforce as the Group's CRM tool. A comprehensive review of the LMS system and our wider Technology strategy was carried out in 2022, and in 2023 we are focussed on implementation of our Technology strategy with good progress being made.

We have seen our headcount reduce in the first H1 2023 as we look for efficiencies and cost control. At 30 June 2023, the Group headcount was 31 (31 December 2022: 39). We believe the business is well resourced to meet its objectives and are focussing on continuous improvement and development of our people.

## ESG

At Sancus, we are committed to taking Environmental, Social and Governance ("ESG") factors seriously. We recognise our responsibility to incorporate sustainability throughout the operations of our business, be custodians of the environment and practice good stewardship of our stakeholders' interests.

In Q1 2023 we present our first Environmental, Social, and Governance report, marking the start of our journey towards greater transparency and sustainability. The report highlights our progress and achievements in the areas of environmental protection, social responsibility and governance, as well as the challenges and opportunities that we face.

It is essential that we understand what ESG factors are most important to internal and external stakeholders, such that we can continue to improve and evolve in line with our ESG strategy principals and are ready to take appropriate action.

## Outlook

Whilst the outlook remains unclear, some of uncertainties present at the end of 2022 have now played out to a greater extent. For example, we have seen a series of rate rises from central banks during H1 and whilst some further incremental increases are possible, we are unlikely to see material further increases. In a world of asset price uncertainty the Company remains optimistic that the residential property market will remains resilient, assisted by the perennial imbalance between supply and demand for housing across our target markets.

A challenging dynamic remains but management have a clear plan to navigate the current market, avoid taking undue risks and be ready to take advantage of the opportunities that such times will inevitably present.

**Rory Mepham**
**Chief Executive Officer**

19 September 2023

# Risks, uncertainties and responsibility statement
For the period ended 30 June 2023

## Risks and uncertainties
There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year. These include, but are not limited to, Capital and liquidity risk, Regulatory and compliance risk, Market risk, Credit risk with respect to the loan book (primarily bridging loans and, increasingly, development loans), Operational risk and the execution of Sancus strategy.
These risks remain unchanged from December 2022 and are not expected to change in the 6 months to the end of the 2023 financial year. Further details on these risks and uncertainties can be found in the December 2022 Annual Report.

## Responsibility statement
The Directors confirm that to the best of their knowledge:

> The Interim Report has been prepared in accordance with the AIM rules of the London Stock Exchange;
> This financial information has been prepared in accordance with IAS 34 as adopted by the UK;
> The interim results include a fair review of the important events during the first half of the financial year and their impact on the financial information as required by DTR 4.2.7R; and
> The interim results include a fair review of the disclosure of related party transactions as required by DTR 4.2.8R.

## Approved and signed on behalf of the Board of Directors

19 September 2023

## Independent review report on interim financial information
## For the period ended 30 June 2023

### Conclusion

We have been engaged by Sancus Lending Group Limited (the 'Company') to review the condensed set of consolidated financial statements in the Interim Report for the six months ended 30 June 2023 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in shareholders' equity, the condensed consolidated statement of cash flows and related Notes 1 to 19.

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of Consolidated Financial Statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the UK and the AIM Rules of the London Stock Exchange.

### Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2 of the interim condensed consolidated financial statements, the financial statements of the Company are prepared in accordance with IFRSs as adopted by the UK. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the International Accounting Standard 34, "Interim Financial Reporting", as adopted by the UK.

### Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

### Responsibilities of directors

The Interim Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Interim Report in accordance with the AIM Rules of the London Stock Exchange.

In preparing the half-yearly financial report, the directors are responsible for assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

**Moore Stephens Audit and Assurance (Jersey) Limited**

1 Waverley Place,
Union Street,
St. Helier,
JE4 8SG, Jersey

19 September 2023

# Condensed consolidated statement of comprehensive income (unaudited)

For the period ended 30 June 2023

| | Notes | Period ended 30 June 2023 (unaudited) £'000 | Period ended 30 June 2022 (unaudited) £'000 |
|---|---|---|---|
| **Revenue** | 4 | **5,407** | 4,823 |
| Cost of sales | 5 | **(5,105)** | (3,560) |
| **Gross profit** | | **302** | 1,263 |
| Operating expenses | 6 | **(3,318)** | (3,350) |
| Changes in expected credit losses | 17 | **(799)** | – |
| **Operating loss** | | **(3,815)** | (2,087) |
| FinTech Ventures fair value movement | 17 | **362** | 114 |
| Other net gains/(losses) | | **37** | (9) |
| Loss on disposal of subsidiary | 19 | **(202)** | – |
| Profit on disposal of other assets | 12 | **303** | – |
| **Loss for the period before tax** | | **(3,315)** | (1,982) |
| Income tax expense | | **2** | – |
| **Loss for the period after tax** | | **(3,313)** | (1,982) |
| **Items that may be reclassified subsequently to profit and loss** | | | |
| Foreign exchange arising on consolidation | | **(20)** | 10 |
| **Other comprehensive (loss)/income for the period after tax** | | **(20)** | 10 |
| **Total comprehensive loss for the period** | | **(3,333)** | (1,972) |

| | | | |
|---|---|---|---|
| **Basic loss per Ordinary Share** | 7 | **(0.57)p** | (0.41)p |
| **Diluted loss per Ordinary Share** | | **(0.57)p** | (0.41)p |

The accompanying Notes on pages 14 to 31 form an integral part of these financial statements.

# Condensed consolidated statement of financial position (unaudited)

As at 30 June 2023

| | Notes | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 8 | **211** | 425 |
| Goodwill | 9 | **14,255** | 14,255 |
| Other intangible assets | 10 | **–** | – |
| Sancus loans and loan equivalents | 17 | **20,733** | 23,864 |
| FinTech Ventures investments | 17 | **237** | – |
| Investments in joint ventures and associates | | **–** | – |
| Other investments | | **100** | 100 |
| **Total non-current assets** | | **35,536** | 38,644 |
| **Current assets** | | | |
| Other assets | 12 | **–** | 706 |
| Sancus loans and loan equivalents | 17 | **64,209** | 52,261 |
| Trade and other receivables | 11 | **7,097** | 5,806 |
| Cash and cash equivalents | | **4,293** | 4,134 |
| **Total current assets** | | **75,599** | 62,907 |
| **Total assets** | | **111,135** | 101,551 |

# Condensed consolidated statement of financial position (unaudited) continued

As at 30 June 2023

| | Notes | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|---|
| **EQUITY** | | | |
| Share premium | 13 | **118,340** | 118,340 |
| Treasury shares | 13 | **(1,172)** | (1,172) |
| Other reserves | | **(113,327)** | (109,994) |
| **Total Equity** | | **3,841** | 7,174 |
| | | | |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **105,202** | 90,868 |
| Other liabilities | | **–** | 152 |
| **Total non-current liabilities** | 14 | **105,202** | 91,020 |
| | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **611** | 1,708 |
| Tax liabilities | 14 | **169** | 145 |
| Provisions | 14 | **649** | 413 |
| Other liabilities | 14 | **663** | 1,091 |
| **Total current liabilities** | | **2,092** | 3,357 |
| | | | |
| **Total liabilities** | | **107,294** | 94,377 |
| | | | |
| **Total equity and liabilities** | | **111,135** | 101,551 |

The financial statements were approved by the Board of Directors on 19 September 2023 and were signed on its behalf by:

Director: John Whittle

The accompanying Notes on pages 14 to 31 form an integral part of these financial statements.

# Condensed consolidated statement of changes in shareholders' equity (unaudited)

For the period ended 30 June 2023

| | Share Premium £'000 | Treasury Shares £'000 | Warrants Outstanding £'000 | Foreign Exchange Reserve £'000 | Retained Earnings/ (Losses) £'000 | Total Equity £'000 |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2022 (audited)** | 118,340 | (1,172) | – | 31 | (110,025) | 7,174 |
| **Transactions with owners** | – | – | – | – | – | – |
| **Total comprehensive loss for the period** | – | – | – | (20) | (3,313) | (3,333) |
| **Balance at 30 June 2023 (unaudited)** | **118,340** | **(1,172)** | **–** | **11** | **(113,338)** | **3,841** |
| | | | | | | |
| **Balance at 31 December 2021 (audited)** | 116,218 | (1,172) | 385 | 11 | (96,348) | 19,094 |
| Fair value of warrants | – | – | (385) | – | 385 | – |
| Transactions with owners | – | – | (385) | – | 385 | – |
| Total comprehensive profit/(loss) for the period | – | – | – | 10 | (1,982) | (1,972) |
| **Balance at 30 June 2022 (unaudited)** | 116,218 | (1,172) | – | 21 | (97,945) | 17,122 |

The accompanying Notes on pages 14 to 31 form an integral part of these financial statements.

# Condensed consolidated statement of cash flows (unaudited)

For the period ended 30 June 2023

| | Notes | Period ended 30 June 2023 (unaudited) £'000 | Period ended 30 June 2022 (unaudited) £'000 |
|---|---|---|---|
| **Cash outflow from operations, excluding loan movements** | 15 | **(4,374)** | (626) |
| (Increase)/Decrease in Sancus loans | | **(211)** | 195 |
| Increase in loans through the Pollen facility | | **(9,237)** | (5,840) |
| **Net cash outflow from operating activities** | | **(13,822)** | (6,271) |
| **Cash inflows from investing activities** | | | |
| Divestment in IOM Preference Shares | | **–** | 516 |
| Net Repayments/(Investments) in FinTech Ventures | | **125** | (236) |
| Investment in joint ventures | | **(50)** | (50) |
| Expenditure on Properties | 12 | **–** | (178) |
| Sale of Properties | | **1,008** | – |
| Expenditure on fixed assets and intangibles | | **(5)** | (14) |
| **Net cash inflow from investing activities** | | **1,078** | 38 |
| **Cash inflows from financing activities** | | | |
| Draw down of Pollen facility | 15 | **10,000** | 2,500 |
| Capital element of lease payments | 15 | **(109)** | (104) |
| Debt issue costs | | **32** | – |
| Sale of ZDPs | 15 | **3,000** | – |
| **Net cash inflow from financing activities** | | **12,923** | 2,396 |
| Effects of Foreign Exchange | | **(20)** | 10 |
| **Net increase/(decrease) in cash and cash equivalents** | | **159** | (3,827) |
| Cash and cash equivalents at beginning of period | | **4,134** | 12,436 |
| **Cash and cash equivalents at end of period** | | **4,293** | 8,609 |

£2.2m of the £4.3m cash held at 30 June 2023 is for the exclusive use of Sancus Loans Limited (June 2022: £3.2m of the £8.6m).

The accompanying Notes on pages 14 to 31 form an integral part of these financial statements.

# Notes to the condensed interim financial statements

For the period ended 30 June 2023

## 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 Company's Memorandum and Articles of Incorporation (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 Team is responsible for the management of the Company.

The Company has taken advantage of the exemption conferred by the Companies (Guernsey) Law, 2008, Section 244, not to prepare company only financial statements which is consistent with the 2022 Annual Report.

## 2. ACCOUNTING POLICIES

### (a) Basis of preparation

These condensed consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standard (IAS) 34 'Interim Financial Reporting', as adopted by the United Kingdom and all applicable requirements of Guernsey Company Law. They do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's annual audited financial statements for the year ended 31 December 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the United Kingdom.

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.

These financial statements were authorised for issue by the Company Directors on 19 September 2023.

### (b) Principal accounting policies

The same accounting policies and methods of computation are followed in these financial statements as in the last annual financial statements for the year ended 31 December 2022.

### (c) Going Concern

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 debts 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. 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, 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.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 2. ACCOUNTING POLICIES continued

### (c) Going Concern continued

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.

### (d) Critical accounting estimates and judgements in applying accounting policies

The critical accounting estimates and judgements are as outlined in the financial statements for the year ended 31 December 2022.

## 3. SEGMENTAL REPORTING

Operating segments are reported in a manner consistent with the manner in which the Executive 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 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, 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.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 3. SEGMENTAL REPORTING continued

| | | | | | | | Reconciliation to Consolidated Financial Statements | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Six months to 30 June 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** | **721** | **1,131** | **886** | **(603)** | **–** | **2,135** | **–** | **3,272** | **–** | **–** | **5,407** |
| Operating Profit/(loss)[1] | (228) | (160) | 320 | (625) | – | **(693)** | (662) | – | – | (9) | **(1,364)** |
| Credit Losses | (122) | (29) | – | (648) | – | **(799)** | – | – | – | – | **(799)** |
| Debt Costs | – | – | – | – | (1,652) | **(1,652)** | – | – | – | – | **(1,652)** |
| Other Gains/(losses) | 101 | – | 8 | 84 | – | **193** | – | – | 362 | (5) | **550** |
| Loss on JVs and associates | – | – | – | – | – | **–** | – | – | – | (50) | **(50)** |
| Taxation | 2 | – | – | – | – | **2** | – | – | – | – | **2** |
| **Profit After Tax** | **(247)** | **(189)** | **328** | **(1,189)** | **(1,652)** | **(2,949)** | **(662)** | **–** | **362** | **(64)** | **(3,313)** |
| **Six months to 30 June 2022** | | | | | | | | | | | |
| Revenue | 658 | 1,386 | 752 | (251) | – | 2,545 | – | 2,278 | – | – | 4,823 |
| Operating Profit/(loss)[1] | (481) | (319) | 467 | (259) | – | (592) | (618) | – | – | (17) | (1,227) |
| Credit Losses | 191 | – | – | (191) | – | – | – | – | – | – | – |
| Debt Costs | – | – | – | – | (860) | (860) | – | – | – | – | (860) |
| Other Gains/(losses) | 24 | – | 5 | (34) | – | (5) | 5 | – | 155 | – | 155 |
| Loss on JVs and associates | – | – | – | – | – | – | – | – | – | (50) | (50) |
| Taxation | – | – | – | – | – | – | – | – | – | – | – |
| Profit After Tax | (266) | (319) | 472 | (484) | (860) | (1,457) | (613) | – | 155 | (67) | (1,982) |

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

Sancus Loans Limited is consolidated into the Group's results as it is a 100% owned subsidiary of the Group. Sancus Loans Limited is considered 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 £244,000, Offshore to Ireland £37,000, Head Office to Offshore £68,000 and UK to Head Office £96,000. "Other" includes FinTech (excluding fair value and forex).

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 3. SEGMENTAL REPORTING continued

| | | | | | | Reconciliation to Financial Statements | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 30 June 2023** | **Offshore £'000** | **UK £'000** | **Ireland £'000** | **Sancus Loans Limited (SLL) £'000** | **Total Sancus £'000** | **Head Office £'000** | **FinTech Portfolio £'000** | **Other £'000** | **Inter Company Balances £'000** | **Consolidated Financial Statements £'000** |
| Total Assets | 33,797 | 16,660 | 1,105 | 88,899 | 140,461 | 60,132 | 237 | 87 | (89,782) | 111,135 |
| Total Liabilities | (54,839) | (18,516) | (317) | (94,738) | (168,410) | (28,342) | – | (324) | 89,782 | (107,294) |
| **Net Assets/ (liabilities)** | **(21,042)** | **(1,856)** | **788** | **(5,839)** | **(27,949)** | **31,790** | **237** | **(237)** | **–** | **3,841** |
| **At 31 December 2022** | | | | | | | | | | |
| Total Assets | 37,724 | 14,855 | 1,133 | 78,952 | 132,664 | 44,214 | – | 93 | (75,420) | 101,551 |
| Total Liabilities | (44,250) | (16,528) | (653) | (83,205) | (144,636) | (25,068) | – | (93) | 75,420 | (94,377) |
| Net Assets/ (liabilities) | (6,526) | (1,673) | 480 | (4,253) | (11,972) | 19,146 | – | – | – | 7,174 |

Head Office liabilities include borrowings £28.2m (December 2022: £24.0m). Other FinTech assets and liabilities are included within "Other".

## 4. REVENUE

| | **30 June 2023 (unaudited) £'000** | 30 June 2022 (unaudited) £'000 |
|---|---|---|
| Co-Funder fees | **1,228** | 767 |
| Earn out (exit) fees | **394** | 260 |
| Transaction fees | **1,024** | 1,711 |
| Total revenue from contracts with customers | **2,646** | 2,738 |
| Interest on loans | **86** | 58 |
| Sancus Loans Limited interest income | **2,669** | 2,027 |
| Other income | **6** | – |
| **Total Revenue** | **5,407** | 4,823 |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 5. COST OF SALES

| | 30 June 2023 (unaudited) £'000 | 30 June 2022 (unaudited) £'000 |
|---|---|---|
| Interest cost | **1,664** | 881 |
| Sancus Loans Limited interest cost | **3,272** | 2,278 |
| Other cost of sales | **169** | 401 |
| **Total cost of sales** | **5,105** | 3,560 |

## 6. OPERATING EXPENSES

| | 30 June 2023 (unaudited) £'000 | 30 June 2022 (unaudited) £'000 |
|---|---|---|
| Administration and secretarial fees | **47** | 61 |
| Amortisation and depreciation | **118** | 157 |
| Audit fees | **63** | 69 |
| Corporate Insurance | **4** | 69 |
| Directors Remuneration | **55** | 64 |
| Employment costs | **2,157** | 2,201 |
| Investor relations expenses | **30** | 30 |
| Legal and professional fees | **185** | 82 |
| Marketing expenses | **55** | 126 |
| NOMAD fees | **38** | 38 |
| Other office and administration costs | **502** | 385 |
| Pension costs | **46** | 51 |
| Registrar fees | **15** | 15 |
| Sundry | **3** | 2 |
| **Total operating expenses** | **3,318** | 3,350 |

## 7. LOSS PER ORDINARY SHARE

Consolidated loss per Ordinary Share has been calculated by dividing the consolidated loss attributable to Ordinary Shareholders in the period by the weighted average number of Ordinary Shares outstanding (excluding treasury shares) during the period.

Note 13 describes the warrants in issue which are currently out of the money, and therefore are not considered to have a dilutive effect on the calculation of Loss per Ordinary Share.

| | 30 June 2023 (unaudited) | 30 June 2022 (unaudited) |
|---|---|---|
| Number of shares in issue | **584,138,346** | 489,843,477 |
| Weighted average number of shares outstanding | **584,138,346** | 477,990,801 |
| Loss attributable to Ordinary Shareholders in the period | **£3,333,000** | £1,982,000 |
| Basic Loss per Ordinary Share | **(0.57)p** | (0.41)p |
| Diluted Loss per Ordinary Share | **(0.57)p** | (0.41)p |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 8. FIXED ASSETS

| | Right of use assets £'000 | Property & Equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 31 December 2022 | 1,247 | 460 | 1,707 |
| Additions in the period | – | 5 | 5 |
| Disposals in the period | (128) | (44) | (172) |
| At 30 June 2023 | 1,119 | 421 | 1,540 |

| | £'000 | £'000 | £'000 |
|---|---|---|---|
| **Accumulated depreciation** | | | |
| At 31 December 2022 | 883 | 399 | 1,282 |
| Charge in the period | 92 | 26 | 118 |
| Disposals in the period | (29) | (42) | (71) |
| At 30 June 2023 | 946 | 383 | 1,329 |
| | | | |
| **Net book value 30 June 2023** | **173** | **38** | **211** |
| | | | |
| Net book value 31 December 2022 | 364 | 61 | 425 |

## 9. GOODWILL

Goodwill at 30 June 2023 and 31 December 2022 comprises:

| | **£'000** |
|---|---|
| Sancus Lending (Jersey) Limited | 14,255 |
| Total | 14,255 |

### Impairment tests

The carrying amount of goodwill arising on the acquisition of certain subsidiaries is assessed by the Board for impairment on an annual basis or sooner if there has been any indication of impairment. The Board last assessed the Goodwill for impairment on the preparation of the 2023 interim accounts, with the next assessment due on the preparation of the 2024 interim accounts, assuming that there having been no indicators of impairment in the interim period. There have been no indicators of impairment relating to the Jersey goodwill so this will next be assessed for impairment in June 2024.

At 30 June 2023 the value in use of Sancus Jersey was based on an internal Discounted Cash Flow ("DCF") value-in-use analysis using cash flow forecasts for the years 2023/24 to 2026/27. The starting point for each of the cash flows was the revised forecast for 2023 produced by Sancus Lending Jersey management. Management's revenue forecasts applied a compound annual growth rate (CAGR) to revenue of 27.9% and a cost of equity discount rate of 14.5%. The resultant valuation indicated that no impairment of goodwill was required.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 9. GOODWILL continued

### Goodwill valuation sensitivities

When the discounted cash flow valuation methodology is utilised as the primary goodwill impairment test, the variables which influence the results most significantly are the discount rates applied to the future cash flows and the revenue forecasts. The table below shows the impact on the Consolidated Statement of Comprehensive Income of stress testing the period end goodwill valuation with a decrease in revenues of 10% and an increase in cost of equity discount rate of 3%. These potential changes in key assumptions fall within historic variations experienced by the business (taking other factors into account) and are therefore deemed reasonable. The current model reveals that a sustained decrease in revenue of circa 12% or a sustained increase of circa 8% in the cost of Equity discount rate would remove the headroom.

| Sensitivity Applied | Total £'000 |
|---|---|
| 10% decrease in revenue per annum | 4,228 |
| 3% increase in cost of Equity discount rate | 2,093 |

Neither a 10% decrease in revenue nor a 3% increase in the cost of Equity discount rate implies a reduction of Goodwill in Jersey.

## 10. OTHER INTANGIBLE ASSETS

| | £'000 |
|---|---|
| **Cost** | |
| At 30 June 2023 and 31 December 2022 | 1,584 |
| | |
| **Amortisation** | |
| At 31 December 2022 | 1,584 |
| Charge for the period | – |
| At 30 June 2023 | 1,584 |
| | |
| **Net book value at 30 June 2023** | **–** |
| | |
| Net book value at 31 December 2022 | – |

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

## 11. TRADE AND OTHER RECEIVABLES

| | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|
| **Current** | | |
| Loan fees, interest and similar receivable | **6,356** | 4,673 |
| Receivable from associated companies | **–** | 5 |
| Taxation | **5** | 58 |
| Other trade receivables and prepaid expenses | **736** | 1,070 |
| | **7,097** | 5,806 |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 12. OTHER ASSETS

| | Development properties £'000 |
|---|---|
| **Cost** | |
| At 31 December 2021 | 496 |
| Additions | 210 |
| Disposals | – |
| At 31 December 2022 | 706 |
| Disposals | (706) |
| **At 30 June 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 £303k recognised in the Consolidated Statement of Comprehensive Income.

## 13. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE

Sancus Lending Group Limited has the power under the Articles to issue an unlimited number of Ordinary Shares of nil par value.

No Ordinary Shares were issued in the period to 30 June 2023 (Period to 30 June 2022: Nil).

### Share Capital

| Number of Ordinary Shares – nil par value | Shares in issue |
|---|---|
| At 30 June 2023 (unaudited) and 31 December 2022 (audited) | 584,138,346 |

### Share Premium

| Ordinary Shares – nil par value | £'000 |
|---|---|
| At 30 June 2023 (unaudited) and 31 December 2022 (audited) | 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

| | **30 June 2023 (unaudited) Number of shares** | 31 December 2022 (audited) Number of shares |
|---|---|---|
| Balance at start and end of period/year | **11,852,676** | 11,852,676 |

| | **30 June 2023 (unaudited) £'000** | 31 December 2022 (audited) £'000 |
|---|---|---|
| Balance at start end of period/year | **1,172** | 1,172 |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 13. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE continued

### Warrants in Issue

As at 30 June 2023 there were 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 30 June 2023 is £Nil (31 December 2022: £Nil).

## 14. LIABILITIES

### Non-current liabilities

| | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|
| Corporate bond (1) | **14,937** | 14,925 |
| Pollen Facility (2) | **76,997** | 66,826 |
| ZDP shares (3) | **13,268** | 9,117 |
| Lease Creditor | **–** | 152 |
| **Total non-current liabilities** | **105,202** | 91,020 |

### Current liabilities

| | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|
| Accounts payable | **104** | 224 |
| Accruals and other payables | **507** | 1,472 |
| Taxation | **169** | 145 |
| Payable to associated companies | **–** | 12 |
| Interest payable | **497** | 481 |
| Derivative contracts (note 17) | **10** | 398 |
| Provisions for financial guarantees | **649** | 413 |
| Lease creditor | **156** | 212 |
| **Total current liabilities** | **2,092** | 3,357 |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 14. LIABILITIES continued

### Movement on provision for financial guarantees

| | £'000 |
|---|---|
| At 31 December 2021 | – |
| Profit and loss charge in the year | 413 |
| At 31 December 2022 | 413 |
| Profit and loss charge in the period | 236 |
| **At 30 June 2023** | **649** |

Provisions for financial guarantees are recognised in relation to Expected Credit Losses ("ECLs") on off-balance sheet loans and debtors where the Company has provided a subordinated position or other guarantee (see Note 18). The fair value is determined using the exact same methodology as that used in determining ECLs (Note 17).

### (1) 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.

### (2) 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 18 Commitments and Guarantees.

### (3) ZDPs

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 30 June 2023 the Company was in compliance with these covenants as Cover Test A was 2.24 (minimum of 1.7) and the adjusted Cover Test B was 3.20 (minimum of 2.05). At 30 June 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 30 June 2023 the Company held 10,505,739 ZDP shares in Treasury (31 December 2022: 12,574,705) with an aggregate value of £18,352,475 (31 December 2022: £20,861,686).

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 15. NOTES TO THE CASH FLOW STATEMENT

### Cash outflow from operations (excluding loan movements)

| | 30 June 2023 (unaudited) £'000 | 30 June 2022 (unaudited) £'000 |
|---|---|---|
| Loss for the period | **(3,313)** | (1,982) |
| **Adjustments for:** | | |
| Net gain on FinTech Ventures | **(362)** | (114) |
| Other net (gains)/losses | **(195)** | 417 |
| Loss on disposal of subsidiary | **202** | – |
| Accrued interest on ZDPs | **1,106** | 400 |
| Impairment of financial assets | **799** | – |
| Taxation | **45** | – |
| Amortisation/depreciation of fixed assets | **118** | 157 |
| Amortisation of debt issue costs | **195** | 95 |
| **Changes in working capital:** | | |
| Trade and other receivables | **(2,133)** | 82 |
| Trade and other payables | **(836)** | 319 |
| Cash outflow from operations, excluding loan movements | **(4,374)** | (626) |

### Changes in liabilities arising from financing activities

The table below details 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 | Financing cash flows[1] £'000 | Amortisation of debt issue costs Non-cash £'000 | Other Non-cash £'000 | 30 June 2023 £'000 |
|---|---|---|---|---|---|
| ZDPs | 9,117 | 3,000 | 12 | 1,139[2] | 13,268 |
| Corporate Bond | 14,925 | – | 12 | – | 14,937 |
| Pollen Facility | 66,826 | 10,000 | 171 | – | 76,997 |
| Lease Liability | 364 | (109) | – | (99) | 156 |
| **Total liabilities from financing activities** | **91,232** | **12,891** | **195** | **1,040** | **105,358** |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 15. NOTES TO THE CASH FLOW STATEMENT continued

| | 1 January 2022 £'000 | Financing cash flows[1] £'000 | Amortisation of debt issue costs Non-cash £'000 | Other Non-cash £'000 | 30 June 2022 £'000 |
|---|---|---|---|---|---|
| ZDPs | 10,532 | – | 13 | 400[2] | 10,944 |
| Corporate Bond | 12,474 | – | 13 | – | 12,487 |
| Pollen Facility | 52,203 | 2,500 | 70 | – | 54,773 |
| Lease Liability | 576 | (104) | – | – | 472 |
| **Total liabilities from financing activities** | 75,785 | 2,396 | 95 | 400 | 78,676 |

1 These amounts can be found under financing cash flows in the cash flow statement.

2 Interest accruals.

## 16. RELATED PARTY TRANSACTIONS

### Transactions with the Directors/Executive Team

#### Non-executive Directors

As at 30 June 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:

| | **30 June 2023 £** | 30 June 2022 £ |
|---|---|---|
| Stephen Smith (Chairman) | **50,000** | 50,000 |
| John Whittle | **42,500** | 42,500 |
| Tracy Clarke (stepped down as non-executive director 30 March 2023) | **35,000** | 35,000 |

Tracy Clarke was appointed Group CFO and joined the Executive Team on 30 March 2023.

Total Directors' fees charged to the Company for the period ended 30 June 2023 were £55,000 (30 June 2022: £63,750).

#### Executive Team

For the period ended 30 June 2023, the Executive Team members' remuneration from the Company, excluding all reasonable expenses incurred in the course of their duties which were reimbursed by the Company, were as detailed in the table below:

| | **30 June 2023 £'000** | 30 June 2022 £'000 |
|---|---|---|
| Aggregate remuneration in respect of qualifying service – fixed salary | **284** | 238 |
| Aggregate amounts contributed to Money Purchase pension schemes | **10** | 10 |
| Aggregate bonus paid | **–** | – |

All amounts have been charged to Operating Expenses.

On 30 March 2023, as an interim measure which may become permanent, 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 which has a three-year term. The annualised fee for the service is £170k. Furthermore, 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£100k p.a.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 16. RELATED PARTY TRANSACTIONS continued

On 30 March 2023 Carlton entered into a Director services agreement with Sancus Lending Group Limited for the provision of Tracy Clarke as Interim CFO, with an annual fee of £130k.

Tracy Clarke is Managing Director of Carlton Management Services Limited.

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 period ended 30 June 2023 (30 June 2022: none).

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

As at 30 June 2023, the Directors had the following beneficial interests in the Ordinary Shares of the Company:

| | 30 June 2023 | | 31 December 2022 | |
|---|---|---|---|---|
| | **No. of Ordinary Shares Held** | **% of total issued Ordinary Shares** | No. of Ordinary Shares Held | % of total issued Ordinary Shares |
| John Whittle | **138,052** | **0.02** | 138,052 | 0.03 |
| Emma Stubbs | **1,380,940** | **0.24** | 1,380,940 | 0.28 |
| Rory Mepham | **1,000,000** | **0.17** | – | – |

In the six month period to June 2023 and the year to December 2022, none of the above received any amounts relating to their shareholding.

Emma Stubbs resigned as Executive Director of the Company on 30 March 2023.

### Transactions with connected entities

The following significant transactions with connected entities took place during the current period:

### Receivable from/(payable to) related parties

| | **30 June 2023 £'000** | 31 December 2022 £'000 |
|---|---|---|
| Amberton Limited | **–** | (7) |

### Net Cost recharges

| | **30 June 2023 £'000** | 30 June 2022 £'000 |
|---|---|---|
| Amberton Limited | **3** | 4 |

There is no ultimate controlling party of the Company.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 17. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

### Sancus loans and loan equivalents

| | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|
| **Non-current** | | |
| Sancus loans | **34** | 171 |
| Sancus Loans Limited loans | **20,699** | 23,693 |
| **Total Non-current Sancus loans and loan equivalents** | **20,733** | 23,864 |
| | | |
| **Current** | | |
| | | |
| Sancus loans | **3,138** | 2,790 |
| Sancus Loans Limited loans | **61,071** | 49,471 |
| **Total Current Sancus loans and loan equivalents** | **64,209** | 52,261 |
| | | |
| **Total Sancus loans and loan equivalents** | **84,942** | 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:

| | 30 June 2023 (unaudited) | | 31 December 2022 (audited) | |
|---|---|---|---|---|
| | Level 2 £'000 | Level 3 £'000 | Level 2 £'000 | Level 3 £'000 |
| Fintech Ventures investments | **–** | **237** | – | – |
| Derivative contracts | **(10)** | **–** | (398) | – |
| Total assets/liabilities at fair value | **(10)** | **237** | (398) | – |

The classification and valuation methodology remains as noted in the 2022 Annual Report.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 17. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

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 £237k at 30 June 2023 (31 December 2022: £Nil) following a recovery on one of the investments post period end. 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).

### Assets at Amortised Cost

| | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|
| Sancus loans and loan equivalents | **84,942** | 76,125 |
| Trade and other receivables | **6,361** | 4,736 |
| Cash and cash equivalents | **4,293** | 4,134 |
| **Total assets at amortised cost** | **95,596** | 84,995 |

### Liabilities at Amortised Cost

| | 30 June 2023 (unaudited) £'000 | 31 December 2022 (audited) £'000 |
|---|---|---|
| ZDPs | **13,268** | 9,117 |
| Corporate Bond | **14,937** | 14,925 |
| Pollen facility | **76,997** | 66,826 |
| Trade and other payables | **1,433** | 2,698 |
| Provisions in respect of guarantees | **649** | 413 |
| **Total liabilities at amortised cost** | **107,284** | 93,979 |

Refer to Note 14 for further information on liabilities.

### FinTech Ventures Investments

| 30 June 2023 | Total Portfolio £'000 |
|---|---|
| At 31 December 2022 | **–** |
| Net new investments/loan repaid | **(125)** |
| Realised gain recognised in profit and loss | **362** |
| At 30 June 2023 | **237** |

| 31 December 2022 | Total Portfolio £'000 |
|---|---|
| At 31 December 2021 | 500 |
| Net new investments/(divestments) | 394 |
| Realised losses recognised in profit and loss | (894) |
| At 31 December 2022 | – |

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 17. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

### Credit Risk

Credit risk is defined as the risk that a borrower/debtor may fail to make required repayments within the contracted timescale. 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.

Credit risk is determined on initial recognition of each loan and re-assessed at each balance sheet date. It is categorized into Stage 1, Stage 2 and Stage 3 with Stage 1 being to recognise 12 month ECLs, Stage 2 being to recognise Lifetime ECLs not credit impaired and Stage 3 being to recognise Lifetime ECLs credit impaired.

### Foreign Exchange Risk – Derivative instruments

The Treasury Committee Team 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. Forward contracts to sell Euros at loan maturity dates are entered into when loans are drawn in Euros. At 30 June 2023 the following forward foreign exchange contracts were open:

### June 2023

| Counterparty | Settlement date | Buy currency | Buy amount £'000 | Sell currency | Sell amount €'000 | Unrealised loss £'000 |
|---|---|---|---|---|---|---|
| Alpha | Jun 2023 to July 2023 | GBP | 7,744 | Euro | 9,000 | 3 |
| Lumon Risk Management | Jun 2023 to July 2023 | GBP | 22,439 | Euro | 26,100 | (13) |
| | | | | | | **(10)** |

### December 2022

| Counterparty | Settlement date | Buy currency | Buy amount £'000 | Sell currency | Sell amount €'000 | Unrealised gain £'000 |
|---|---|---|---|---|---|---|
| EWealthGlobal Group | Jan 2023 to May 2023 | GBP | 3,565 | Euro | 4,187 | (144) |
| Liberum Wealth | Jan 2023 to Feb 2023 | GBP | 3,202 | Euro | 3,650 | (35) |
| Lumon Risk Management | Jan 2023 to May 2023 | GBP | 9,259 | Euro | 10,676 | (219) |
| | | | | | | (398) |

No hedging has been taken out against investments in the FinTech Ventures platforms (2022: £Nil).

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 17. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

### Provision for ECL

Provision for ECL is made using the credit risk, the probability of default (PD) and the probability of 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 x PD x PL and are then amended as necessary according to the more subjective measures as noted above.

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 probability of loss is arrived at with reference to the LTV and consideration of cash that can be redeemed on recovery.

### Movement of provision for ECL

| | Loans £'000 | Trade Debtors £'000 | Guarantees £'000 | Total £'000 |
|---|---|---|---|---|
| Loss allowance at 31 December 2021 | 6,409 | 7,055 | – | 13,464 |
| Charge/(credit) for the year 2022 | 426 | (421) | 413 | 418 |
| Utilised in the year 2022 | – | (141) | – | (141) |
| Loss allowance at 31 December 2022 | 6,835 | 6,493 | 413 | 13,741 |
| Charge for the period to June 2023 | 44 | 519 | 236 | 799 |
| Disposed in the period to June 2023 | (1,200) | (734) | – | (1,934) |
| **Loss allowance at 30 June 2023** | **5,679** | **6,278** | **649** | **12,606** |

## 18. GUARANTEES

The Group undertakes a number of Guarantees and first loss positions which are not deemed to be contingent liabilities under IAS37 as there is no present obligation for these guarantees and it is considered unlikely that these liabilities will crystallise.

### 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

Sancus Loan Note 7 Limited was launched in May 2021 and currently stands at £17.3m. Sancus Loan Note 7 Limited matures in May 2024 and has a coupon of 7% p.a. (payable quarterly), with Sancus providing a 10% first loss guarantee.

Sancus Loan Note 8 plc was launched in January 2022 and currently stands at £3.0m. 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 30 June 2023 the Group has unfunded commitments of £70.0m (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 and/or by our secured funding lines.

# Notes to the condensed interim financial statements continued

For the period ended 30 June 2023

## 19. 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 £202k, being the difference between the net assets of Sancus Lending (Gibraltar) and sale proceeds on disposal has been recognised in the Consolidated Statement of Comprehensive Income.

# Officers and professional advisers

For the period ended 30 June 2023

| | |
|---|---|
| **Directors** | |
| **Non-executive:** | Steve Smith<br>John Richard Whittle<br>Tracy Clarke (resigned 30 March 2023) |
| **Executive:** | Rory Mepham<br>Emma Stubbs (resigned 30 March 2023)<br>Tracy Clarke (appointed 30 March 2023) |

The address of the Directors is the Company's registered office.

| | |
|---|---|
| **Executive Team:** | |
| Chief Executive Officer: | Rory Mepham |
| Chief Financial Officer: | Tracy Clarke |
| Chief Investment Officer: | James Waghorn |
| **Registered office:** | Les Vardes House, La Charroterie, St Peter Port, Guernsey, GY1 1EL, Channel Islands |
| **Nominated Adviser and Broker:** | Liberum Capital Limited, Ropemaker Place, 25 Ropemaker Street, London, EC2Y 9LY, United Kingdom |
| **Company Secretary:** | Sanne Fund Services (Guernsey) Limited, Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 1GR, Channel Islands |

# Officers and professional advisers continued

For the period ended 30 June 2023

| | |
|---|---|
| **Legal Advisers, Channel Islands:** | Carey Olsen, P.O. Box 98, Carey House, Les Banques, St Peter Port, Guernsey, GY1 4BZ, Channel Islands |
| **Legal Advisers, UK:** | Stephenson Harwood, 1 Finsbury Circus, London, EC2M 7SH, United Kingdom |
| **Legal Advisers, US:** | Troutman Pepper, 3000 Two Logan Square, Eighteenth and Arch Streets, Philadelphia, PA 19103-2799, United States |
| **Bankers:** | Barclays International, 1st Floor, 39041 Broad Street, St Helier, Jersey, JE4 8NE |
| **Auditors:** | Moore Stephens, 1 Waverley Place, Union Street, St. Helier, JE4 8SG, Jersey |
| **Registrar:** | Link Market Services Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, United Kingdom |
| **Public Relations:** | Instinctif Partners Limited, 65 Gresham Street, London, EC2V 7NQ, United Kingdom |

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