



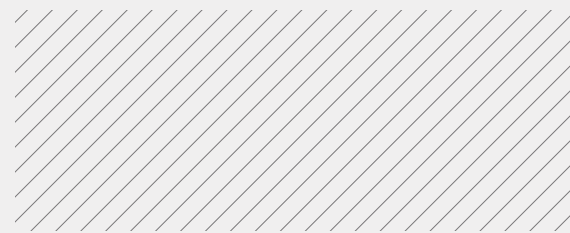
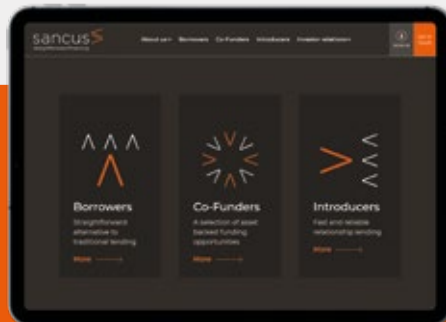
Straightforward.
Experienced.
Reliable.

About us

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



Financial Highlights

- > Group revenue increased by 11% to £10.0m FY22 (FY21: £9.0m);
- > Operating losses narrowed to £4.7m (FY21: loss £10.2m);
- > Group PBT loss for the year of £14.1m (FY21: loss £10.3m) impacted by the exceptional write down of goodwill in Gibraltar of £8.6m; and
- > A small increase of 3.14% (£0.4m) to IFRS9 provisions in 2022, compared to £6.4m charge in 2021, the result of operational improvements within the business.

Operational Highlights

- > Geographic focus remains unchanged: UK and Ireland the key areas of growth for the business with UK revenue up 81%, Ireland up 132%;
- > Sancus' Offshore business saw a decline of 64% in revenue following the repayment of some large loans and insufficient new loans written to mitigate the reduction in their loan book. Offshore new loan facilities written in 2022 however increased by 47% on 2021;
- > Impressive growth of 88% on total new facilities written, from £83m to £156m year on year with UK up 76% and Ireland up 180%, and a strong pipeline in the Group's key growth markets for FY23; and
- > Loan book at year end £169m (2021: £142m) as a result of continued increase in UK and Irish loan books.

Strategic Highlights

- > Restructuring of the Group's funding facility, extension of the Zero Dividend Preferences Shares ("ZDPs") and Tender offer, and new equity and bond subscription from Somerston;
 - Increase and extension of the Company's facility arranged by Pollen Street Plc ("Pollen Street") from £75m to up to £125m, not to expire before November 2026, providing additional funding capacity as the Company seeks to grow its lending book;
 - Refinancing and extension of the ZDP shares to December 2027, accompanied by a 15% tender offer;
 - Further investment by Somerston through the exercise of warrants over 94,294,869 ordinary shares, for an aggregate subscription price of £2.1m; and
 - Somerston subscribed to £2.43m bonds in December 2022, taking the Company's aggregated bond principal to £15m, of which £10.13m is now held by Somerston.
- > The Company announced in January 2023 its decision to rationalise the number of offices from which it operates, from five to three: London, Dublin and Jersey, providing the Group with a footprint reflecting its three core areas of geographic focus: UK, Ireland and Offshore;
- > This rationalisation resulted in the closure of the Company's office in Guernsey and the decision to cease new business activities in Gibraltar, having not identified sufficient quality lending opportunities to merit continued efforts in the region; and
- > Sancus Gibraltar was subsequently sold for £10k, resulting in closure cost savings of around £200k. The departure from the Gibraltar market will result in cost saving, risk reduction and allow dedicated resources to focus on the Group's core markets. Goodwill of £8.64m held in respect of Sancus Gibraltar written down to nil.

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Positioning the business for the future

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We are now a year into a structured change programme which we expect to reposition the Group for growth.

Steve Smith
Chairman



Demand in our chosen markets remains firm and the reduced appetite of some traditional balance sheet lenders, may present an opportunity to write good quality new business.

The expansion of the business development team has started to pay dividends with an increase in the volume of new loan facilities written to £156m, versus £83m in the previous year.

Last year, as part of a wider review of the business and an expansion of the credit and recovery teams, we carried out a detailed review of the Group's loan book which resulted in an impairment provision of £6.4m. We believe that last year's write down effectively draws a line under recent losses and we are reporting an IFRS9 impairment of £0.4m in 2022, partially the result of ongoing recovery costs. The provisions made to date all relate to loans written in 2019 or before.

We have decided to close the Gibraltar office. This will result in cost savings and improved focus in stronger markets. As a result of the decision to close the office, Goodwill (£8.64m) arising from the acquisition of Sancus Lending (Gibraltar) Limited ("Sancus Gibraltar") in 2016, has been written down to nil.

Our People

Following last year's personnel changes, the team has settled in well and is working hard to deliver our goals of profitability, growth and shareholder value. The Group has invested in rebuilding and reinforcing the team and our headcount has increased from 32 at the end of 2021 to 39 at 31 December 2022. We do not expect to increase headcount in 2023.

The new resource is focussed on expansion in our growth markets of the UK and Ireland, credit risk and technology.

As announced on 10 January 2023 Emma Stubbs, CFO, will be leaving the business at the end of March 2023 and Tracy Clarke will be appointed as the Group's Interim Chief Financial Officer, for an initial period of 12 months. Emma leaves as a result of our continuing commitment to reduce cost and to switch the focus of our operations to Jersey where we have

a significant presence. Emma leaves with our very best wishes and thanks for her time with the Group.

Tracy has been a non-executive Director of the Company since March 2022 and is a Fellow of the Institute of Chartered Accountants in England and Wales and holds the CISI Investment Advice Diploma. Tracy is currently Managing Director of Carlton Management Services Limited ("Carlton"), a licensed Jersey Trust Company business which provides administration and finance services to clients including the Somerston Group (the Company's largest shareholder).

With effect from 31 March 2023, as an interim measure which may become permanent, Carlton has been appointed to manage and develop the Group's finance function, including new technology integrations for forecasting, performance and treasury management. Under its service agreement with Carlton, which has a three-year term and covers services

including accounts preparation, budgeting and cash flow forecasting, book-keeping, financial KPI analysis and various administrative services. Sancus will pay to Carlton an annual fee of £170k (the "Carlton Agreement"). Furthermore, it has been agreed that Carlton will sub-lease office space from Sancus in the Group's offices in Jersey, pursuant to a sub-lease agreement dated 30 March 2023 to which Sancus, Carlton and the landlord of the Group's Jersey offices are each a party (the "Carlton Sub-lease"). Pursuant to the Carlton Sub-lease, Carlton will be charged approximately £100k, on the same terms as Sancus for the proportion of space occupied, which is not currently being used by Sancus. The Carlton Sub-lease therefore represents cost savings for the Group, while also facilitating a smoother working relationship as envisaged by the Carlton Agreement.

Entry by the Company into the Carlton Agreement and the Carlton Sub-lease each represents a related party transaction, pursuant to AIM Rule 13. The independent directors (being the Company's directors except for Tracy Clarke) consider, having consulted with

its nominated adviser, Liberum Capital, that the terms of the respective transactions are each fair and reasonable insofar as its independent shareholders are concerned.

The Board intend to appoint a permanent CFO in due course and will review these arrangements on a regular basis.

Capital Raise and Facility and Debt Restructuring

At the end of 2022 we announced an expansion of the Company's Funding Facility with Pollen Street from £75m to up to £125m to expire no earlier than 23 November 2026. This will provide additional funding capacity as the Company seeks to grow its loan book.

We also deferred the maturity of the ZDP shares until 5 December 2027 and completed a tender offer for 15% of ZDP shares, excluding those held in treasury, that was fully subscribed.

Somerston, the Group's largest shareholder, invested further equity in the Company on 30 November 2022 by exercising warrants over 94,294,869 ordinary shares for an aggregate

subscription price of £2.1m. On 1 December 2022 Somerston subscribed to £2.425m of bonds taking the Company's aggregated bond exposure to £15m (of which £10.13m is held by Somerston).

Dividend and Shareholders

The Group is engaged in a recovery programme and there is no capacity to declare a dividend this year. The Board will revisit this policy as soon as the cash flow and profitability permit.

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

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

Steve Smith
Chairman
30 March 2023



Building a stronger business

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This year saw a number of achievements and I am pleased with the progress made.

Rory Mepham
Chief Executive Officer



There is still more work to do on the road to profitability, but the foundation to meet our goals were built upon during the year.

We saw a significant increase in loans written in the year from £83m written in 2021 to £156m in 2022. This will lead to corresponding growth of loans under management, and revenue increase, as these loans are drawn over time.

The loan book growth has been prevalent in the UK (129% growth versus 2021) and Irish markets (22% growth versus 2021) where the Sancus name and reputation continues to develop. Following the repayment of several large loans in our Offshore business in the year, the team are working hard to replenish the book with this new loan capacity. In the UK we are particularly proud to have been shortlisted for the award of

Development Finance provider of the year at the Bridging & Commercial awards, a clear demonstration of our growing reputation as a straightforward and trusted business partner.

It will take time for the loan writing process to deliver revenue uplift as there is a time lag between execution and drawdown, though fees are paid upfront on new deals and we generally receive exit fees when the loan is repaid. At the end of 2022 the loan book stood at £169m, an 11% increase versus FY 2021 when it was £142m. We expect growth in the loan book to increase during 2023 as the newly written loans continue to be drawn.

In addition to growing the revenue side of the Company, during the year we have been seeking to find opportunities to both optimise cost and create efficiencies. This has ultimately culminated in our decisions to close our offices in Gibraltar and Guernsey, whilst retaining our ability to do business in Guernsey. Technological enablement of our systems and processes is further designed to drive efficiency and mitigate cost increases as the business scales up.

Strategic KPIs

We have seen progress against the Board agreed KPIs:

- > Revenue growth
 - 11% up on last year due to modest increase in loan deployment. Positive upticks in our growth areas of the UK and Ireland, with the UK revenue up 81% on last year and Ireland up 132%.
- > Growing loans under management
 - Loan book increase from £142m at 31 December 2021 to £169m at 31 December 2022.
- > Reducing cost of funding
 - This remains a focus for the Group, and we continue to seek cheaper cost of funding. This has been challenging in the macro-economic environment of the year but remains a strategic objective. To address the movements in base rates across our markets, we have implemented variable rate loans with the margin pegged to the relevant base rate.
- > Become a capital efficient business
 - We continue to reduce the amount of own capital within loans, which at the end of 2022 represented 3.5% of the total loan book, in comparison to 5.6% at the end of 2021.
- > Increasing operating profits – by increasing gross margin and reducing costs
 - Operating loss for 2022 was £4.7m against an operating loss of £10.2m in 2021. We have a small increase of £0.4m in relation to IFRS9 losses in the year, whereby £6.5m was reported in 2021.
 - Our cost base has increased on prior year as we focus on growth but in the future we expect the cost ratio to revenue to reduce.

- > Return on Equity (“ROE”)
 - Going forward we plan to become profitable and report a positive ROE which the management team will be tasked to improve year-on-year.
- > Ensuring a risk-based approach is taken on all decision making
 - Embedding institutional credit processes and becoming increasingly technology enabled has been a focus of the Group over the last year.

Origination

We have seen growth in new loan facilities written during the year with £156m written during 2022 against £83m in 2021, as the benefits of our investment in the origination teams begin to deliver.

Maintaining a high-quality credit process whilst scaling the quantity of new loans is a priority. We expect to see continued growth in the UK and Ireland as these remain key areas of investment for the Group. We further anticipate that the Offshore business will continue to see attractive lending opportunities and we are confident that the teams in our three core jurisdictions are well placed to execute against those opportunities as they arise.

Standardisation of the loan execution process has been implemented across the Group, including documentation, conditions precedent, conditions subsequent and closing checklists. We have also implemented a new workflow process to expediate the time between the loan credit approval and loan drawdown and are exploring how we can better utilise technology to manage certain elements more efficiently. We have now onboarded and integrated Salesforce (our chosen CRM software) with our Loan Management System which will create further standardisation and unlock efficiencies going forward.



After 18 months in my post as CEO, the turnaround of the business is on track and we are confident of our ability to deliver profitability. The business has undergone considerable restructuring and simplification during my tenure and we continue to be exclusively focused on residential property lending in the development and bridging space, a market which remains underserved and offers significant growth possibilities.

During the year, we have carried out various cost optimisation projects in an effort to ensure that every pound of cost incurred is geared towards delivering growth. We remain convinced that technological enablement holds one of the keys to our future and are pleased with both the progress that has been made to date and the further enhancements in the pipeline. The robustness of our credit process, institutional quality of our underwriting, due diligence and active loan management means that despite recent inflationary and interest rate pressures we report only a small increase of 3.14% (£0.4m) to our previously reported IFRS9 provisions, all of which relate to loans written in 2019 or before.

I am excited by the potential in the teams that we have assembled in the UK, Ireland and Offshore and believe that we have the basis from which to become “best in class” in each of these markets.

Rory Mepham
Chief Executive Officer

Loan Management

The loan book increased from £142m at the end of 2021 to £169m at the end of 2022. With the number of new facilities written and as we see funds deployed, we expect to be reporting a further increase in our loan book over the coming year. The increase was driven by the UK loan book increasing by 129% and Ireland by 22% in the year, with Offshore decreasing by 14%. New facilities written in total increased by 88% year on year. We have a strong pipeline and expect to see the loan book continue to increase. At the year end, the asset backed loan book comprised Offshore at £82m (31 December 2021: £96m) UK at £66m (31 December 2021: £29m) and Ireland at £21m (31 December 2021: £17m).

Continued emphasis has been placed on actively managing loans once the initial drawdown has been made and further investment has been made in recruiting experienced loan management team members during the year. 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 focus on increasing the funding capacity and diversifying the funding sources 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. 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

Co-Funders remain our largest funding channel, with the majority of the Offshore loan book being co-funded. The percentage of the loan book funded by co-funders continues to reduce from 50% at the end of 2021 to 39% at the end of 2022, as the proportion of co-funding from institutional funding lines increases. We continue to nurture relationships with the Co-Funder base, typically being Offshore private individuals and family offices. In addition to the large pool of Co-Funders that have been working with Sancus for a number of years, the business is actively seeking to widen its net and has recruited team members in its Offshore team to be exclusively focused on targeting and building relationships with potential new Co-Funders.

Loan Notes, managed by Amberton Limited, remain an important funding instrument for the business. Loan Note 8 was launched in January 2022 and currently stands at £2.7m. Loan Note 8 matures on 1 December 2026 and has a coupon of 5% p.a. (payable quarterly), with Sancus providing a 20% first loss guarantee. Loan Note 7 was launched in May 2021 and currently stands at £14.8m. Loan Note 7 matures in May 2024 and has a coupon of 7% p.a. (payable quarterly), with Sancus providing a 10% first loss guarantee. We are in the process of re-launching Loan Note 8, with an improved coupon of 8%, to reflect the current interest rate environment.

Sancus has secured an increase and extension to the institutional funding line arranged by Pollen Street Capital ("Pollen Street") and is designed to be complementary to our Co-Funder base and Loan Note program. As announced on 24 November 2022 the credit facility was increased to £125m from £75m and the term was extended such that it will expire at least four years from the date of the Agreed Terms, being not before 23 November 2026. At 31 December 2022 the total drawn was £67.75m (31 December 2021: £49.9m). The Pollen Street facility continues to be strategic for the business and is generally utilised in relation to funding development loans.

Sancus also has a forward flow bridge funding arrangement with a global private equity backed debt acquisition business and continues to explore additional long term financing lines that could sit alongside our syndicated lending approach.

The availability, cost and flexibility of funding is key to achieving our growth ambitions and we are continually reviewing the capital position of the business with a view to ensuring it is best placed to grow funding capacity on improved terms. Over the course of 2022 the loan book funded by institutional funding increased by 69%, with the majority of the UK and Irish loan book funded by this channel which now makes up 48% of the loan book. We seek to increase institutional funding alongside building the loan note program and co-funder network over time.

Finance & Operations

A focus on operational efficiency within Finance and Operations, driven by technology wherever possible, commenced during 2022 and will continue into 2023. Sancus has continued to develop its own proprietary loan management system ("LMS") for the administration of loans and has completed the integration of this system with a CRM system provided by a third party.

The Executive team continue to improve Corporate Governance and Compliance and Risk management as these are the bedrock for the business to achieve future growth targets.

We made some selective hires across the business over the last year with the focus of bolstering our Funding and Origination capabilities in our active markets. At the end of 2022, the Group headcount was 39 (31 December 2021: 32) with the largest increases in the Origination and Loan Management teams. 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, will be leaving the business at the end of March 2023 and Tracy Clarke will be appointed as the Group's Interim Chief Financial Officer, for an initial period of 12 months. Tracy, who has been a non-executive Director of the Company since March 2022, is a Fellow of the Institute of Chartered Accountants in England and Wales and holds the CISI Investment Advice Diploma. Tracy is currently Managing Director of Carlton Management Services Limited ("Carlton"), a licensed Jersey Trust Company business which provides administration and finance services to clients including the Somerston Group (the Company's largest shareholder). With effect from 31 March 2023, Carlton has been appointed to augment and support the development of the Group's finance function, including new technology integrations for forecasting, performance and treasury management and reporting, further detail on which is set out in the Chairman's Statement. It is ultimately the intention of the Board to appoint a permanent CFO in due course and intends to review these arrangements in 12 months.

A key milestone at the end of 2022 was the successful increase and extension of the term of our facility with Pollen Street, as well as restructuring our ZDPs. With the ZDP's intended to play a long-term part of the Group's finance strategy, the extension of the maturity date from 5 December 2022 to 5 December 2027 allows the Group time to focus on its growth plans.

Realising value from the legacy FinTech Ventures Investments remains a target for the management team albeit we now only hold stakes in four platforms.

Unfortunately, the profitability of many of these companies have failed to meet expectations within an acceptable timeframe and their ability to raise additional capital without proving concept is severely constrained and we have fully written down our portfolio to nil at the end of 2022. It remains a challenging market for many of the FinTech platforms.

Summary of Financial Performance

Group revenue increased by 11% year on year from £9.0m in 2021 to £10.0m in 2022. Note 3 Segmental Reporting sets out the results by Offshore, UK and Ireland and we can start to see revenue growth in our growth target markets, with the UK revenue up by 81% and Ireland up 132% over the course of 2022.

We have seen Offshore revenue decrease by 64% in the year, partly due to some large exit fees received in 2021 and a reduction in administration and transactional fees as the total loan book in the region decreased over the last few years. The Offshore team has seen significant change in senior management personnel in the last two years, and the new team are focussed on re-building the loan book over the coming years. Offshore continues to be a core market.

We have reported an operating loss of £4.7m (FY 2021: loss of £10.2m) and a small increase of £0.4m of expected credit losses (IFRS 9) in the year (FY 2021: £6.5m loss).

The Group's net assets have reduced in the year from £19.1m at 31 December 2021 to £7.2m as a result of the operating loss in the year and the goodwill impairment in Gibraltar of £8.6m. We did see £2.1m of new equity come into the Group from Somerston at the end of November 2022, who exercised the balance of their existing warrants.

Group cash and cash equivalents was £4.1m at 31 December 2022 of which £2.5m related to Group operational cash and £1.6m was within Sancus Loans Limited.

As announced on 10 January 2023 in reviewing its operations in Gibraltar during 2022, the Company has not identified sufficient quality lending opportunities to merit continued efforts in the region. Leaving the Gibraltar market will result in cost saving, risk reduction and allow dedicated resources to focus on the Group's core markets. As a result, the Goodwill (£8.64 million), held by the Company since the acquisition of

Sancus Lending (Gibraltar) Limited ("Sancus Gibraltar") in 2016, has consequently been written down to nil in the 2022 results. We announced post year-end on 15 March 2023 that we have sold Sancus Gibraltar for £10,000.

Goodwill remains on the balance sheet at £14.3m. This relates to the carrying amount of goodwill arising on the acquisition of Sancus Jersey. This is assessed by the Board for impairment on an annual basis (or sooner if there has been any indication of impairment). A full testing for impairment of the carrying amount of goodwill was reported in the June 2022 interim accounts. The resultant value in use calculation indicated that no impairment of goodwill was required in Sancus Jersey. Following on from this review the Board have considered whether there have been any further indicative events of impairment since June 2022, and they have concluded that there have not. The next full testing impairment review will take place in the 2023 Interim Report.

We continue to reduce our on balance sheet loans (excluding those loans in Sancus Loans Limited). These amounted to £8.2m before IFRS9 provisions at 31 December 2022 compared to £9.7m at 31 December 2021 (£3.0m net of IFRS9 provisions at 31 December 2022 compared to £4.7m at 31 December 2021). Sancus Loans Limited had loans of £74.7m at 31 December 2022 (31 December 2021: £49.9m).

The Group's liabilities consist of the Bond instrument which now stands at £15m of principal following a further subscription by Somerston in 2022. This has a quarterly paid coupon of 7% p.a. and matures on 31 December 2025; and ZDPs of £9.1m with a coupon now of 9% following the restructure and refinance in the year (previously 8%) and matures on 5 December 2027 (previous maturity date was 5 December 2022). The Pollen credit facility which was increased to £125m from £75m on 26 November 2022, stood at £67.75m drawn at 31 December 2022.

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. We are now taking steps to improve our approach to managing these factors.

During 2022 we have been focused on defining our ESG strategy. Having now established an internal ESG focus group we have also drawn on external industry experts as required.

It is essential that we understand what ESG factors are most important to our stakeholders, such that we can focus our strategy around improving our approach to these issues. We have completed a materiality assessment and have engaged with stakeholders during the year.

I am pleased to report these results in detail in our ESG report on page 12.

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.

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.

Outlook

The economic uncertainty is likely to lead to the continued retrenchment of major Banks from both SME and development financing and during Q4 we have observed a reduction in the number of active competitors in both the UK and Ireland, further providing attractive opportunities for alternative lenders such as Sancus. We continue to track the economic and geopolitical situation closely as the potential for supply chain disruption and inflationary risks continue to be a concern.

We remain optimistic about the outlook for our business and continue to look forward to delivering both profitability and a "best in class" offer to our clients.

Rory Mepham
Chief Executive Officer
30 March 2023

Principal risks, uncertainties and related internal controls

Risk management is key to achieving objectives

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		
<p>1. Capital and liquidity risk</p> <p>Sancus's own funding is sourced primarily from the ZDP shares and the Corporate Bond (as detailed in Note 17).</p> <p>Expansion of lending and investment activities will be constrained to the extent of retained profits unless further sources of funding are secured.</p>	<p>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.</p> <p>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.</p> <p>The business seeks to maintain a material liquidity buffer at all times.</p>	<p>Medium</p> <p>Completion of the fundraising and liability management exercise over the last couple of years has significantly improved the Group's capital and liquidity position.</p> <p>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.</p>
<p>2. Regulatory and Compliance Risk</p> <p>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.</p> <p>The Company has chosen to comply with the provisions of the QCA Corporate Governance Code. Refer Page 20 for further detail.</p>	<p>All entities have developed and implemented appropriate policies and procedures relating to regulatory compliance and Anti Money Laundering.</p> <p>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 files reviews.</p> <p>The Company has an appointed NOMAD, Liberum, whom it liaises with regularly, to ensure compliance with the AIM rules, including the Market Abuse Regulations.</p> <p>Boards receive quarterly reports from the Risk & Compliance Director and where appropriate, Money Laundering Reporting Officers, on compliance monitoring plans and any breaches identified.</p>	<p>Medium</p> <p>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.</p> <p>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) exist.</p>

Principal risks, uncertainties and related internal controls continued

Principal risks	Internal controls mitigating risks	Current rating of risks
Group		
<p>3. Market risk</p> <p>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.</p> <p>Foreign exchange risk primarily arises from the USD and Euro investments in the FinTech portfolio and Euro loans held in the Irish lending book.</p>	<p>Exposures to these risks are monitored regularly by the Sancus Treasury Committee and reported to the Board on a quarterly basis.</p> <p>These risks are identified and assessed at the time of entering into new transactions.</p>	<p>● High</p> <p>More information on the sensitivity to these risks is contained in Note 22.</p> <p>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.</p> <p>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.</p>
<p>4. Credit Risk</p> <p>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.</p>	<p>Each operational entity has its own credit policies and procedures which are the subject of at least annual review by operating entity Boards.</p> <p>The respective Credit Committees take all credit decisions, monitor credit exposures on an ongoing basis and manage recovery situations. Following Covid-19 tighter lending criteria has been implemented.</p>	<p>● High</p> <p>The IFRS 9 provision increased substantially during 2021 however, no further material provisions were required this year. The credit performance across the Group remains resilient with actual losses incurred being less than 1% of loans advanced.</p> <p>See Note 22 (5) for further details.</p> <p>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.</p>
Operational		
<p>5. Execution of the Sancus strategy</p> <p>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.</p>	<p>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.</p> <p>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.</p>	<p>● Medium</p> <p>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.</p> <p>The emergence of Covid-19 created downside risk on new loan origination levels although we believe this risk has now reduced.</p> <p>IT capabilities for Sancus were further enhanced during 2021 and 2022, providing Co-Funders with online interactive services and creating operational efficiencies.</p>

Principal risks	Internal controls mitigating risks	Current rating of risks
<p>6. Operating entities</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>● High</p> <p>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.</p>
Investment		
<p>7. FinTech Ventures Platform Valuations</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>The Group regularly monitors the progress of each business, with regular review of financial and KPI reporting.</p> <p>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.</p>	<p>● Low</p> <p>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 2022.</p> <p>The valuations are also subject to a number of material estimation uncertainties, refer to Note 22 (4).</p>

Introduction

Sancus is pleased to present its first Environmental, Social, and Governance (ESG) report, marking the start of our journey towards greater transparency and sustainability. This 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 have faced.

As a firm, we acknowledge our imperative to act to become a more responsible and sustainable business. We recognise the impact that we have on the environment and society, as well as the effect of our operations and financial performance. We are committed to continuing our efforts to embed ESG principles into our operations, investments and build our capability and capacity to respond to these challenges and create long-term value for our stakeholders.

ESG is a continuous process of assessment and refinement. At Sancus, we recognise that we are at the beginning of our ESG journey and that we still have much to learn and improve upon. This journey requires a commitment to ongoing education, regular reflection, and a willingness to adapt and change as needed. We understand that ESG is not a one-time project or initiative, but rather an ongoing exercise of improvement.

We believe transparency is essential to this process. It allows us to be honest and open about our progress, challenges, and failures. It also enables our stakeholders to hold us accountable and provide feedback on our ESG efforts to enable us to support the long-term success and viability of our business.

We hope that this report will provide insight into Sancus' approach to ESG and our efforts to make a positive impact on the world around us. We look forward to continuing our journey and to sharing our progress with our stakeholders.

Our approach to ESG

At Sancus, we are committed to a data-driven approach to ESG that is informed by our stakeholders views.

To guide our efforts, we conducted a materiality assessment – drawing on both qualitative and quantitative insight data – to help us to identify the most important ESG issues for our business and our stakeholders.

We have established baseline performance criteria across material ESG topics, and the assessment has allowed us to set specific ESG objectives and goals that are aligned with our current maturity, ambition and stakeholder expectations.

The detail below summarises our ESG roadmap, which outlines the measures and initiatives we will undertake to close the gap between the baseline and our objectives and goals. This roadmap includes key performance indicators (KPIs) that will facilitate monitoring and reporting of our progress.

A key outcome of this process is that we have an understanding of where we stand today and where we need to be in the future. This means we are able to prioritise our ESG efforts in a way that is relevant, actionable and address the most critical challenges and opportunities we face.

Our headline objectives

1

Environmental

Promote the efficient use of resources by improving our understanding of the environmental impacts associated with our operations, including carbon emissions, waste and water use.

2

Social

Enhance our approach to Social Impact and Diversity, Equity and Inclusion (DE&I) by aligning with relevant measures in the National Themes, Outcomes and Measures (TOMs) Framework.

3

Governance

Strengthen our data management, internal capability and reporting maturity to support our internal and external stakeholders to deliver on our ESG goals.

Best practice guidance and frameworks



GHG Protocol: We have established a carbon accounting system for greenhouse gases (GHGs) following the methodology set out in the GHG Protocol Corporate Standard.



National TOMs: We are using the National TOMs Framework to identify, measure and report on our social value.



Sustainable Development Goals (SDG): We have used the SDGs framework to inform our materiality assessment to support identifying priority areas where we can contribute to sustainable development.



Our approach

Our strategic ESG priorities are focused on three main areas: commitment to reducing our environmental impact, focus on improving our social impact, and enhancing the responsibility of our governance practices.

Our impact

We are committed to reducing our carbon emissions and promoting sustainable practices throughout our operations. We also aim to improve the communities we operate in through investment in local economies and delivery of voluntary programmes. Finally, we will prioritise good governance practices, work towards a more diverse and inclusive leadership approach and maintain high ethical standards across all aspects of our business.

We will measure and report our progress against these priorities on an annual basis. Transparency and honesty will form fundamental principles of our ESG reporting – we are committed to providing accurate and comprehensive information about our ESG performance, both positive and negative, to all of our stakeholders. To make this possible, we will ensure our reporting is guided by industry best practices and standards and informed by stakeholder feedback to guide our decision-making.

Our plan

This is only the beginning of Sancus's ESG programme. As outlined above, we have embedded fundamental processes and frameworks into our operations which will help shape our roadmap. Firstly, having established a team focused on ESG supported by external industry experts, Clarasys. The ESG team has direct reporting responsibilities and the full support of the Executive team. Producing our first ESG report has been a significant milestone allowing us to assess our current status and set realistic targets for the next period and beyond.

A core focus for the next year will be improving our data collection and reporting processes, so that we can better understand our capacity to deliver. It has been a challenging year, so we will be taking steps to make next year's report more detailed and aligned to our wider and longer ambitions. Employee health and wellbeing is a focus in the coming period.

We have set up a working group to lead initiatives in this area, which we believe is a critical part of our company culture and ultimately business success.

We endeavour to achieve all of our business targets and these ESG targets are no different, but equally, we understand that ESG is a continuing journey and not a destination. We will ensure that sufficient resources will be available to make progress against each area, commensurate with our overall ESG strategy. Additionally, our people working on the initiatives will have targets embedded in their performance management to ensure accountability.

Beyond 2024

Our overriding ambition is that ESG becomes an integral and integrated part of Sancus, which runs through the business as a whole, both in our practices and our people. As we move forward and mature our ESG approach and capabilities, we will leverage this to continue to deliver positive impacts for our stakeholders, while driving long-term value creation and growth for Sancus.

Key enablers

- > **Data**
Optimising our systems and processes to ensure we can capture better quality data to improve confidence in our measurement, target-setting and reporting.
- > **Employee engagement**
Undertake a follow-up survey to the one carried out in October 2022; enabling us to monitor progress and inform our employee wellbeing initiatives.

- > **Technology strategy**
Our focus on integrating technology will be at a broader, business transformation scale. This will enhance the delivery of our ESG strategy in data collection and processing, but also in the business's ability to streamline operations.
- > **Training**
Providing training to our people to improve knowledge of ESG generally and Sancus's journey. Focus on building a centre of excellence within the business to further our initiatives.

Key milestones

1. Office move

Our UK operations will be relocating to a new office in 2023. This represents an opportunity for us to build ESG into our contracts and relationship more generally with suppliers. We envisage this will allow us to navigate some of the challenges we have faced to date around the collection of data on energy, waste, and water.

2. Gibraltar business sale and Guernsey office closure

The consolidation of our Channel Islands businesses to Jersey will result in greater efficiencies with office spaces and reduced travel, two key areas of our carbon footprint.



Our ESG Landscape

We are cognizant of the evolving ESG landscape and how this will continue to influence our ability to bring our ambition into reality. As part of our initial efforts, we have evaluated key drivers of ESG, including regulatory, voluntary and broader stakeholder pressures, to shape our roadmap.

Present

Present - Our biggest institutional funding line has become increasingly focused on ESG over the last few years. A proprietary scoring matrix now forms part of our access to investment - meaning improvements in ESG performance are rewarded by reductions in our cost of funding. We believe that this trend to reward appropriate behaviours is gathering momentum amongst financial institutions and we see this as a key priority, to remain attractive to current and potential funders.

Present - Section 172 AIM listed companies are required to report on the impact of their operations on communities and the environment.

2023

Early 2023 - Updated Modern Slavery Bill (proposing amendments to the Modern Slavery Act 2015) is expected to be published in early 2023, which is likely to introduce additional criminal offences designed to encourage businesses to address problem suppliers and make more accurate and complete statements.

November 2023 - UK Biodiversity Net Gain requirement applies to new developments in UK. The UK's Environment Act 2021 will require all new real estate developments to deliver a 10% 'biodiversity net gain' from November 2023, which will effectively become a requirement of its planning permission. This can be delivered through on-site or off-site measures or a combination.

June 2023 - Consultation on Future Buildings Standard. Expected date of further consultation on the detailed technical aspects of the UK Government's Future Buildings Standard which will set out more stringent efficiency standards, to ensure that new buildings are 'zero carbon ready' from 2025.

April 2023 - Minimum Energy Efficiency Standard (MEES) Regulation. For commercial properties there will be a prohibition on continuing to let properties with an EPC rating of "F" or less. Whilst there is no express obligation to bring relevant properties up to a compliant standard under the MEES Regulations, local authorities will have enforcement powers, including the ability to impose penalties.

2025

April 2025 - EPC Rules for rented properties. A move to more sustainable buildings generally across the real estate sector. We believe that dwellings and homes will be built to be more energy efficient and sustainable, which will ultimately impact the value of homes not meeting standards. We have already seen a significant move towards this in Minimum EPC rating to be raised from E to C. The plan is to enforce this from 1 April 2025 for new tenancies, and from 1 April 2028 for existing tenancies.

2025 - UK's Future Buildings Standard implemented. The Future Buildings Standard, which will set out more stringent efficiency standards, to ensure that new non-domestic buildings are zero carbon ready from 2025, is expected to be implemented in 2025 for all new non-domestic developments.







2025 - Mandatory Task Force on Climate-related Financial Disclosures (TCFD) compliance will be required.

2025 - EU Corporate Sustainability Reporting Directive (CSRD) to set sustainability reporting requirements for 'large' (two of following: >250 employees; >€20 million balance sheet; >€40 million net turnover) companies with operations in the EU. This will also impose mandatory third-party assurance requirements on ESG disclosure.

Our strategic ESG priorities

This section is an executive summary of Sancus’ full ESG report, which will be made available on the website shortly.



Environment 		    		
Focus Area	2022 Progress	2023 Commitment	Actions	
	What we have done so far	Where we want to be	How we will get there	
Carbon emissions	Completed our first carbon footprint calculation	Identified, prioritised and implemented 'low hanging fruit' measures to reduce our footprint	Establish approach to office energy efficiency	
		An enhanced view of our carbon footprint through improving its scope and data quality	Update systems and processes to fill data gaps	
Waste and circularity	Captured data on our waste generation at our facilities	Identified waste hot spots and opportunities for reduction	Engage property management at our facilities to enable detailed waste audit	
			Establish separate waste streams	
Business travel	Identified gaps in data availability and opportunities to improve	Establish a sustainable business travel policy	Update systems and processes to fill data gaps	
			Gather insight into employee travel attitudes and behaviours	
Climate resilience	Undertaken research to better understand climate resilience	Deeper understanding of what climate resilience means to Sancus	Set-up climate resilience audit	
			Draft a Sancus Climate Resilience Framework	

<div style="display: flex; align-items: center;"> <div style="flex: 1;"> <h2 style="margin: 0;">Social</h2> </div> <div style="flex: 2; display: flex; justify-content: space-around;"> </div> </div>			
Focus Area	2022 Progress	2023 Commitment	Actions
	What we have done so far	Where we want to be	How we will get there
Community building	Evaluated existing practices to identify opportunities for social value creation	A clearly defined set of social value measures (using National TOMs) for community building	Develop a plan to measure and evaluate Sancus's performance against National TOMs
Diversity, equity and inclusion (DE&I)	Developed an initial view of how our current practices impact DE&I	An informed view of our performance across key DE&I metrics	Collect baseline performance data across gender pay gap, ethnic representation and social mobility (quantitative) Deliver internal DE&I training and carry out surveys (qualitative)
Employee health and wellbeing	Mental Health First Aid Training – 2 people fully trained First employee engagement survey Embedded a wellbeing awareness email newsletter to better educate our people	An informed view of our employee health and wellbeing to inform future initiatives	Continue bi-annual employee engagement surveys to ensure we are providing health and wellbeing initiatives that are important to our staff
Local economic growth	Review of existing practices' impact on local economic growth and identified data gaps in ability to measure	A clearly defined set of social value measures (using National TOMs) for local economic growth	Develop a plan to measure and evaluate Sancus's performance against National TOMs

<div style="display: flex; align-items: center;"> <div style="flex: 1;"> <h2 style="margin: 0;">Governance</h2> </div> <div style="flex: 2; display: flex; justify-content: space-around;"> </div> </div>			
Focus Area	2022 Progress	2023 Commitment	Actions
	What we have done so far	Where we want to be	How we will get there
Ethical business practices	Developed Anti-Bribery and Corruption and Modern Slavery policies	Promote ethical business practices throughout supply chain	Evaluate enhancements to policy and processes in line with learnings and best practice Educate our employees on the identification and management of risks on ethical business topics
ESG management	Established our ESG strategy, identified data and governance requirements and started to build internal capability	Embed ESG into risk and data management approach and have grown ESG awareness and knowledge	Explore ESG risk frameworks Integrate carbon accounting software in broader processes/systems Deliver ESG training and embed into wider decision-making forums
Responsible investment	Identified responsible investment as an ESG priority	ESG is integrated into our funding decisions	Research enabling standards and frameworks, such as the UN Principles for Responsible Investment Establish ESG Funding Policy
Transparency and reporting	Developed an understanding of Sancus's ESG reporting and disclosure context	Explore alignment of ESG reporting and disclosure with relevant industry frameworks	Develop ESG communications plan Explore additional ESG reporting frameworks

Strong leadership and governance

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



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 real estate 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 real estate 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 is Managing Director of Carlton Management Services Limited, a licensed Jersey trust company business, that provide services to Somerston. Prior to joining Carlton, 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, CEO

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 real estate 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).

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 took up this right in 2019 with the appointment of Nick Wakefield. On the 8 March 2022 it was announced that Nick Wakefield has been replaced by 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.



B
E

Emma Stubbs
Executive Director, CFO

Emma joined the Group in November 2013 as Chief Financial Officer and was appointed to the Board on 16 September 2014. Emma is also a Board member of Sancus Group Holdings Limited and a number of the subsidiary entities. Emma was appointed as a Non Executive Director on Funding Options Limited on 24 March 2020 until 24 November 2022. Emma is also a Non-Executive Director of Amberton Limited. Emma is a Fellow member of the Association of Chartered Certified Accountants and qualified with Deloitte in 2004. She graduated from the University of the West of England with a BA Hons degree in Accounting and Finance. Emma is resident in Guernsey.



E

Helen Trott
Chief Operating Officer & Legal Counsel

Helen was appointed to the Executive Management Team on 29 November 2022. Helen is a Finance Executive/qualified Lawyer with over 20 years experience in various aspects of retail financial services, private banking and insurance law. This includes regulatory, compliance, governance and company secretariat activities. She is currently responsible for the legal, risk and compliance, people, IT and ESG functions within Sancus Group.



E

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 real estate 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.

B Board of Directors
E Executive Team

Dan Walker
Chief Operating Officer
(left Company on 31 January 2022)

Committed to strengthening corporate governance



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 2022, 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 2023, 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; and

- > 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 page 9.

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; and
- > 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 18 and 19. The time requirement

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 2022 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 Mephram (Chief Executive Officer), Emma Stubbs (Chief Financial Officer), James Waghorn (Chief Investment Officer) and Helen Trott (Chief Operating Officer and Legal Counsel) (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. James Waghorn was appointed to the Executive Management Team as Chief Investment Officer on 8 March 2022 and Helen Trott was appointed as Chief Operating Officer and Legal counsel on 29 November 2022.

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; and
- > 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; and
- > 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 27 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.

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 76.

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.

	Board		Remuneration & Nomination Committee	Audit and Risk Committee
	Quarterly	Other		
Total number of meetings held during the year	4	14	1	3
Stephen Smith (Chairman)	4 of 4	9 of 14	1 of 1	3 of 3
John Whittle	4 of 4	14 of 14	1 of 1	3 of 3
Nicholas Wakefield ¹	1 of 1	1 of 1 (plus 4 as Observer when resigned)	1 of 1	N/A
Tracy Clarke ²	3 of 3 (plus 1 as Observer pre-appointment)	9 of 13	N/A	3 of 3
Emma Stubbs	4 of 4	13 of 14	N/A	N/A
Rory Mephram	4 of 4	12 of 14	N/A	N/A

1. Nicholas Wakefield resigned from the Board on 8 March 2022.

2. Tracy Clarke was appointed to the Board on 8 March 2022.

Ensuring the highest business standards and integrity

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During 2022, management continued to enhance its reporting on risk management to the Board and the Audit and Risk Committee.

John Whittle
Chairman
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. Following a tender process, Moore Stephens were appointed as the Company's auditor in 2021, taking over from Deloitte who held this position since 2016.

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 2022 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; and
- > 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 2022, 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 announced on 10 January 2023 in reviewing its operations in Gibraltar during 2022, the Company has not identified sufficient quality lending opportunities to merit continued efforts in the region. As a result, the Goodwill (£8.64 million), held by the Company since the acquisition of Sancus Lending (Gibraltar) Limited ("Sancus Gibraltar") in 2016, has consequently been written down to nil in the 2022 results. There have been no indicative events of impairment for the goodwill held for Jersey since the last annual review which coincided with the preparation of the 2022 interim accounts. The next annual review will coincide with the preparation of the 2023 interim accounts. Full details can be found in Note 2 (h), Note 3 and Note 12 to the financial statements.

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 2022 no non-audit fees were paid to Moore Stephens, the 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 2022, 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 to 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 2022, 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
30 March 2023

Remuneration report

Maximising shareholder returns

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The Company is committed to the objective of maximising shareholder return in the longer term.

John Whittle
Chairman
Remuneration and Nomination Committee



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 2023.

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; and
- > 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. The Directors intend to put in place a Long-Term Incentive Plan for Senior Management during the course of 2023 which will also include a remuneration review.

For comparative purposes the table below sets out the Non-Executive Directors' remuneration approved and actually paid for the year to 31 December 2021 as well as that proposed for the year ending 31 December 2022 (to be approved at the 2023 AGM).

Director Role	Base for 2022	Additional fees for 2022	Total fees for 2022	Base for 2021	Additional fees for 2021	Total fees for 2021
Patrick Firth ¹ Non-Executive Director and Chairman of the Board	-	-	-	£23,333	£10,000 for Chairman of the Board	£33,333
Steve Smith ² Non-Executive Director and Chairman of the Board	£35,000	£15,000 for Chairman of the Board	£50,000	£22,446	£5,000 for Chairman of the Board	£27,446
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 ³ Non-Executive Director	£6,329	-	£6,329	£35,000	Nil	£35,000
Tracy Clarke ³ Non-Executive Director	£28,671	Nil	£28,671	-	-	-
Total	£105,000	£22,500	£127,500	£115,779	£22,500	£138,279

1. Pro rata for 2021 as Mr Firth resigned as a Non-Executive Director and Chairman of the Board on 31 August 2021.

2. Pro rata for 2021 as Mr Smith was appointed to the Board on 11 May 2021 and succeeded Mr Firth as Board Chairman following his resignation.

3. Pro rata for 2022 as Mr Wakefield was succeeded by Ms Clark on 8 March 2022.

Part 2. Remuneration Policy of Executive Directors

Base Remuneration

For the year ended 31 December 2022, the Executive Directors' base salary 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.

In addition to fixed salary payments, in 2022 the Executive Management Team members received pension contributions of £11,000 Rory Mepham, £8,500 Emma Stubbs, £1,076 James Waghorn and £117 Helen Trott. (2021: £3,278 Andrew Whelan, £7,045 Rory Mepham, £6,299 Emma Stubbs and £7,581 Dan Walker).

Long Term Incentives

The Board intends to introduce a Long Term Incentive Plan for Senior Management during 2023 and an external advisor will be engaged to assist with this.

Discretionary Executive Bonus

There was one discretionary bonus awarded to James Waghorn of £50,000 relating to 2022. (In the year to 2021: £125,000, £50,000, £75,000 and £75,000 were paid to Andrew Whelan, Rory Mepham, Emma Stubbs and Dan Walker respectively).

On behalf of the Remuneration Committee

John Whittle
Remuneration Committee Chairman
30 March 2023

Base Remuneration	31 December 2022	31 December 2021
Andrew Whelan ¹	-	£260,981
Rory Mepham ²	£220,000	£220,000
Emma Stubbs	£170,000	£170,000
Dan Walker ³	-	£200,000
James Waghorn ⁴	£135,000	-
Helen Trott ⁵	£135,000	-

- Mr Whelan resigned on 30 June 2021, and his contract ended on 28 February 2022.
- Mr Mepham was appointed Interim CEO on 30 June 2021 and permanent CEO on 23 November 2022.
- Mr Walker resigned on 31 January 2022.
- Mr Waghorn was appointed CIO on 8 March 2022. In addition to his Sancus salary Mr Waghorn also receives £35k p.a. from Somerston Capital Limited as Managing Director of Healthcare & Development for Somerston.
- Mrs Trott was appointed COO and Legal Counsel on 29 November 2022 and is on a 4 day a week contract.

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 2022, which have been prepared in accordance with International Financial Reporting Standards as adopted by the UK, 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 2022, 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 pages 18 and 19.

Substantial Shareholdings

As at 31 December 2022, the Company was aware of the following substantial shareholders who held 3% or more of the issued share capital of the Company:

Substantial Shareholdings	Number of ordinary shares held	Percentage of total ordinary shares issued held
Somerston Group	294,644,553	50.44%
Philip J Milton & Company plc	94,215,644	16.13%

Directors' interests

As at 31 December 2022, the Directors had the following beneficial interests in the Ordinary Shares of the Company:

Directors' Interests	31 December 2022		31 December 2021	
	No. of Ordinary Shares held	% of Ordinary Shares held	No. of Ordinary Shares held	% of Ordinary Shares held
John Whittle	138,052	0.03	138,052	0.03
Nick Wakefield	-	-	-	-
Emma Stubbs	1,380,940	0.28	1,380,940	0.28
Steve Smith (Chairman)	-	-	-	-
Rory Mephram	-	-	-	-
Tracy Clarke	-	-	-	-

Results and Dividends

The Group results for the year are set out on page 39. No Dividends were paid during the year (31 December 2021: Nil).

Statement of Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom (UK), 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 IFRSs, as adopted by the United Kingdom;
- > 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; and
- > 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.

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; and
- > 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 Stephens have indicated their willingness to continue in office and a resolution to re-appoint Moore Stephens will be tabled at the forthcoming AGM.

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.

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 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.

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. The Board welcomed the appointment of Ms Tracy Clarke who succeeded Mr Nick Wakefield in March 2022 as the Somerston appointed Board representative. It is noted that Emma Stubbs will resign on 30 March 2023 and will be replaced by Tracy Clarke, who will become an executive Director and cease to be Somerston's appointed Board representative. At this time no replacement is deemed necessary for Tracy Clarke's Non Executive position, but this will be kept under review.

Approved and signed on behalf of the Board of Directors on 30 March 2023.

For the year ended 31 December 2022

Consolidated financial statements

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

Opinion

We have audited the financial statements of Sancus Lending Group Limited (the 'company' or the 'parent company and its subsidiaries together as the 'group') for the year ended 31 December 2022 which comprise of the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom and, as regards the parent company financial statements, as applied in accordance with the requirements of the Companies (Guernsey) Law, 2008.

In our opinion:

- > the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- > the group financial statements have been properly prepared in accordance with IFRSs as adopted by the United Kingdom; and
- > the financial statements 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.

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 company's ability to continue to adopt the going concern basis of accounting included:

- > comprehensive analysis of the Entity's financial position; and
- > cash flows, including the key assumptions underlying the Entity's forecasted cash flows.

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. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Audit Matter	Procedures
<p>Impairment of Goodwill</p> <p>As at 31 December 2022, the Group has recorded goodwill of £14.3m (2021: £22.9m) representing 22.64% (2021: 23.1%) of group total assets at year end. Discounted cash flow models are prepared by management to assist the Board and Audit Committee in determining whether indicators of impairment exist and estimating the recoverable amount of goodwill, based on information available at 30 June 2022. The management believes that there were no changes onwards to 31 December 2022.</p> <p>The risk is explained further in the Strategic report where this is included as a key risk of misstatement. Note 2(h) and Note 3 set out the associated accounting policy and disclosure in respect of critical judgements and key sources of estimation uncertainty, with Note 12 setting out details of the impairment tests and goodwill valuation sensitivities.</p>	<p>We obtained our understanding of how the discounted cash flow forecasts are modelled as part of the Board's processes to identify and recognise impairment. With regards to valuation, we performed the following procedures:</p> <p>We obtained an understanding of the relevant controls over the impairment assessment process;</p> <p>We have reviewed and checked the key assumptions to the cash flows including revenue growth rates, discount rates, and future income and expenditure cash flows, and tested for any inconsistencies with our understanding of the group's business model;</p> <p>We internally performed stress testing on the key assumptions to determine the impact on the recoverable amount of goodwill and whether this would lead to any impairment;</p> <p>We checked the critical model assumptions related to the cash flow and growth rate assumptions, which were used in the forecast to model the recovery to pre-Covid-19 levels of loan origination, by assessing trends in external sector reports, evaluating the expected cash flows from the loan pipeline and loans originated post impairment test date;</p> <p>We agreed inputs to supporting evidence where appropriate;</p> <p>We reviewed the models prepared by management for consistency with the requirements of IAS 36;</p> <p>We challenged management's assertion that no further impairment triggers exist at the balance sheet date, considering the sources of information to identify such indicators as listed in IAS 36 Impairment of Assets; and</p> <p>We reviewed the disclosures made per requirements of IAS 36.</p> <p>Based on our audit work, we concur with management that the goodwill balance was not impaired as at 31 December 2022.</p> <p>As described in Note 12 to the financial statements, we noted that management have assumed that Sancus Lending (Jersey) does not require impairment as of 31 December 2022. Note 12 to the financial statements describes the underlying sensitivity of the key inputs used.</p>

Audit Matter	Procedures
Impairment and recoverability of loans receivable	
<p>As at 31 December 2022, the aggregate value of loans and loan equivalents amounted to £76.13m (2021: £53.24m) representing 74.97% of total assets (2021: 54.89%). The loan portfolio comprises of property-backed loans (Sancus). Through Sancus, the group has direct exposure to loans through co-investment alongside third-party lenders.</p> <p>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.</p> <p>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 fraud key audit matter.</p> <p>The risk is explained further in the strategic report where this is included as a key risk of misstatement. Note 2(f) and Note 3 set out the associated accounting policy and disclosure in respect of critical judgements and key sources of estimation uncertainty, with Note 22 setting out details of the associated risk factors, including credit risk.</p>	<p>We have performed the following procedures:</p> <p>We have obtained an understanding of significant controls over the loans impairment process;</p> <p>Performed a walkthrough of relevant controls in the valuation process to confirm they were appropriately designed and implemented;</p> <p>We have tested, on a sample basis, inputs used in the 'Loans Monitoring Report', including the accuracy of covenant calculations, such as loan to value ratios, collateral values, and other financial and non-financial information;</p> <p>We have checked the reasonableness of management's significant judgments relating to the categorisation of loans into the various credit stages required under IFRS 9. We have considered this in relevance to management's definition of a significant increase in credit risk ('SICR') and the definition of default and performed a review of the Loan Monitoring Report to assess evidence of changes in credit risk resulting from factors such as:</p> <ul style="list-style-type: none"> > exceedances in LTV; > covenant breaches; > delinquencies in payments; or > other signs of financial stress. <p>We also checked the reasonableness of management's assumptions related to the recoverable value of any non-performing loans in light of available evidence and the underlying collateral;</p> <p>We have checked the reasonableness of management's assumptions relating to their capital market expectations, such as Covid-19, including any overlays required to compensate for the change in the market environment not reflected in the ECL model;</p> <p>We have evaluated the reasonableness of management's judgements and estimates in deriving the probability of default (PD), determining the loss given default (LGD) and exposure at default (EAD) for each stage within which loans are classified and their compliance with IFRS 9 requirements;</p> <p>We tested the numerical accuracy of the ECL calculation based on the above inputs; and</p> <p>We evaluated the adequacy of disclosures made in the financial statements in light of the requirements of IFRS 7 and IFRS 9.</p> <p>We have concluded that the overall carrying value of loans is reasonable.</p> <p>As described in note 3 to the financial statements, IFRS 9 requires the application of a probability-weighted unbiased estimate in determining the ECL on loans. There are therefore certain loans where the amounts recovered could be materially different to the estimate at 31 December 2022.</p> <p>Note 22 to the financial statements describes the underlying sensitivity of the key inputs used.</p>
Revenue recognition	
<p>The Group's revenue for the year ended 31 December 2022 was £9.98m (2021: £9.02m) of which £5.48m (2021: £5.39m) was sourced from interest income and fees enforced as per lending agreements and £4.5m (2021: £3.62m) was from interest on loans.</p> <p>We consider revenue as a presumed fraud risk and have directed our tests towards this risk.</p>	<p>We have performed the following procedures:</p> <p>We have obtained reports from LMS, related to interest income and tested on sample basis by recalculating interest income and comparing it with the amounts accounted in the general ledger.</p> <p>We also performed analytical review to test the reasonableness of interest income.</p> <p>For fee income, we have verified on sample basis, fee from various contracts and tested for accuracy.</p> <p>We have concluded that the reported revenue is presented fairly.</p>

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. Based on our professional judgement, we determined materiality for the financial statements as a whole as shown in the table to the right:

We have also adopted a lower level of materiality for revenue balances consistent with the prior year audit. We consider revenue to be a critical performance measure for the group as it is expected to be a key driver for future distributions from profits now the group has further developed its SME and property backed lending business.

The lower-level materiality applied was £199.6k (2021: £180k), being approximately 2% (2021: 2%) of total revenue. We agreed with the Audit Committee that this was appropriate as revenue balances are relatively low compared to our overall group materiality set out above, yet there is an increasing focus on these as performance measures.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 60% of group materiality for the 2022 audit (2021: 60%). In determining performance materiality, we considered the following factors:

- > Our risk assessment, including our assessment of the group's overall control environment and that we consider it appropriate to rely on controls on a key business process;
- > Our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.

Group Materiality

£393k

Basis

2% of net assets

Rationale

Considered as most appropriate based on the significance of the on balance sheet lending and goodwill balances.

In determining performance materiality, we considered the following significant judgements:

- > Our risk assessment, including our assessment of the Group's overall control environment; and
- > No past audit experience with the Group.

Error reporting threshold

We would report to the Committee all audit differences in excess of £19.6k (2021: £23k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, including internal control, and assessing the risks of material misstatement for the company and its subsidiaries. Audit work to respond to the risks of material misstatement was performed directly by the group audit team for both the parent entity and its subsidiaries.

Audit work performed for the subsidiaries was executed by the group audit team at levels of materiality applicable to each subsidiary, which in all instances was lower than group materiality and ranged between £53k and £184k (2021: between £4.4k and £1,006k).

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the 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 financial statements or a material misstatement of the other information. 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 the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit in respect of fraud, are; to identify and assess the risks of material misstatement of the 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 company.

Our approach was as follows:

- > We obtained an understanding of the legal and regulatory requirements applicable to the company and considered that the most significant are the Companies (Guernsey) Law, 2008, International Financial Reporting Standards as adopted by the UK, and taxation legislation.
- > We obtained an understanding of how the company complies with these requirements by discussions with management and those charged with governance.
- > We assessed the risk of material misstatement of the 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.

As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- > Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- > Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the group's internal control.
- > Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- > Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- > Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- > Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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.

Jeff Vincent
for and on behalf of Moore Stephens
Audit and Assurance (Guernsey)
Limited
Level 2 Park Place
Park Street
St Peter Port
Guernsey
GY1 3HZ

30 March 2023

Consolidated statement of comprehensive income

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Revenue	5	9,989	9,022
Cost of sales	6	(7,609)	(6,537)
Gross profit		2,380	2,485
Operating expenses	7	(6,674)	(6,231)
Operating loss before credit losses		(4,294)	(3,746)
Changes in expected credit losses	22	(418)	(6,399)
Incurred losses on financial assets		-	(90)
Operating Loss		(4,712)	(10,235)
FinTech Ventures fair value movement	22	(894)	434
Other net gains/(losses)	8	233	(557)
Goodwill impairment		(8,639)	-
Loss for the year before tax		(14,012)	(10,358)
Income tax	18	(50)	19
Loss for the year after tax		(14,062)	(10,339)
Items that may be reclassified subsequently to profit and loss			
Foreign exchange gain arising on consolidation		20	12
Other comprehensive income for the year after tax		20	12
Total comprehensive loss for the year		(14,042)	(10,327)
Loss for the year after tax attributable to equity holders of the company		(14,062)	(10,339)
Total comprehensive loss attributable to equity holders of the company		(14,042)	(10,327)
Basic Loss per Ordinary Share	10	(2.89)p	(2.16)p
Diluted Loss per Ordinary Share	10	(2.89)p	(2.09)p

The accompanying Notes on pages 44 to 75 form an integral part of these financial statements.

Consolidated statement of financial position

For the year ended 31 December 2022

		31 December 2022 £'000	31 December 2021 £'000
	Notes		
ASSETS			
Non-current assets			
Fixed assets	11	425	660
Goodwill	12	14,255	22,894
Other intangible assets	13	-	53
Sancus loans and loan equivalents	22	23,864	6,643
FinTech Ventures investments	22	-	500
Other investments		100	100
Investments in joint ventures and associates	9	-	500
Total non-current assets		38,644	31,350
Current assets			
Other assets	14	706	496
Sancus loans and loan equivalents	22	52,261	46,602
Trade and other receivables	15	5,806	6,075
Cash and cash equivalents		4,134	12,436
Total current assets		62,907	65,609
Total assets		101,551	96,959

	Notes	31 December 2022 £'000	31 December 2021 £'000
EQUITY			
Share premium	16	118,340	116,218
Treasury shares	16	(1,172)	(1,172)
Other reserves		(109,994)	(95,952)
Capital and reserves attributable to equity holders of the Group		7,174	19,094
Total equity		7,174	19,094
LIABILITIES			
Non-current liabilities			
Borrowings		90,868	64,677
Lease liabilities		152	364
Total non-current liabilities	17	91,020	65,041
Current liabilities			
Borrowings		-	10,532
Trade and other payables		1,708	1,628
Hedging contracts		398	-
Tax liabilities		145	86
Provisions		413	-
Lease liabilities		212	212
Interest payable		481	366
Total current liabilities	17	3,357	12,824
Total liabilities		94,377	77,865
Total equity and liabilities		101,551	96,959

The financial statements were approved by the Board of Directors on 30 March 2023 and were signed on its behalf by:

Director: Stephen Smith

Director: John Whittle

The accompanying Notes on pages 44 to 75 form an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2022

	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 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	16	-	-	(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
Balance at 1 January 2021		116,218	(1,099)	847	(1)	(86,471)	29,494
Acquired on sale of BMS	16	-	(73)	-	-	-	(73)
Movement in fair value of warrants		-	-	(462)	-	462	-
Transactions with owners		-	(73)	(462)	-	462	(73)
Total comprehensive income/ (loss) for the year		-	-	-	12	(10,339)	(10,327)
Balance at 31 December 2021		116,218	(1,172)	385	11	(96,348)	19,094

Consolidated statement of cash flows

For the year ended 31 December 2022

	Notes	31 December 2022 £'000	31 December 2021 £'000
Cash flow from operations, excluding loan movements	19	(3,548)	(4,121)
Increase in Sancus loans		(140)	(1,340)
Decrease in loans through platforms		-	8
Increase in Sancus Loans Limited loans		(21,450)	(4,564)
Decrease in loans re: UK SARL		-	1,808
Investment in Sancus Loan Notes		-	(100)
Net Cash flows used in operating activities		(25,138)	(8,309)
Investing activities			
Net investments in FinTech Ventures		(394)	(66)
Divestment/(Investment) in Sancus (IOM) Holdings Limited		516	(16)
Investment in joint venture		(50)	(91)
Expenditure on SPL Properties		(210)	(157)
Sale of SPL Properties		-	743
Property, equipment and other intangibles acquired		(17)	(14)
Net cash (outflow)/inflow from investing activities		(155)	399
Financing activities			
Drawdown of Pollen facility	19	15,250	7,500
Capital element of lease payments	19	(212)	(193)
Exercise of warrants		2,122	-
Issue of bonds	19	2,425	-
Debt issue costs	19	(577)	(3)
Repayment of ZDPs	19	(2,037)	(2,756)
Net cash generated by financing activities		16,971	4,548
Effects of foreign exchange		20	12
Net decrease in cash and cash equivalents		(8,302)	(3,350)
Cash and cash equivalents at beginning of year		12,436	15,786
Cash and cash equivalents at end of year		4,134	12,436

The accompanying Notes on pages 44 to 75 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2022

1. GENERAL INFORMATION

Sancus Lending Group Limited, (the "Company"), and together with its subsidiaries, ("the Group") was incorporated, and domiciled in Guernsey, Offshore, 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, 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 ZDPs 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 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 2022, 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 International Financial Reporting Standards ("IFRS"), as adopted by the UK, 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 2021.

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 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 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.

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 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.

(b) Basis of consolidation

The financial statements comprise the results of Sancus Lending Group and its subsidiaries for the year ended 31 December 2022. 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.

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.

2. ACCOUNTING POLICIES continued

(f) Financial assets and liabilities continued

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.

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.

(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: USD1.2101 (31 December 2021 USD1.3527) and £1: EUR1.1284 (31 December 2021 EUR1.1898)

(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.

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 of 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; and
- > 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.

2. ACCOUNTING POLICIES continued

(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.

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.

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 balance sheet.

(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.

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**Amendments to IFRSs and IASs that are mandatorily effective for the current year**

In the current year, the Group has applied a number of amendments to IFRSs and IASs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2022. These have been listed below. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 1: Amendments resulting from Annual Improvements to IFRS Standards 2018-2020

Amendments to IFRS 3: Amendments updating a reference to the Conceptual Framework

Amendments to IFRS 9: Amendments resulting from Annual Improvements to IFRS Standards 2018-2020

Amendments to IAS 16: Amendments prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use

Amendments to IAS 37: Amendments regarding the costs to include when assessing whether a contract is onerous

IFRSs, IASs and amendments that are in issue but not yet effective

At the date of approval of these Consolidated Financial Statements, the following IFRSs, IASs and amendments, which have not been applied in these Consolidated Financial Statements and are not envisaged to have a material impact on the financial statements when they are applied, were in issue but not yet effective:

Amendments to IFRS 4: Amendments regarding the expiry date of the deferral approach

Amendments to IFRS 16: Amendments to clarify how a seller-lessee subsequently measures sale and leaseback transactions

IFRS 17: Insurance Contracts

Amendments to IFRS 17: Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published

Amendments to IFRS 17: Amendments regarding the initial application of IFRS 17 and IFRS 9

Amendments to IAS 1: Amendments regarding the classification of liabilities

Amendments to IAS 1: Amendments to defer the effective date of the January 2020 amendments

Amendments to IAS 1: Amendments regarding the disclosure of Accounting Policies

Amendments to IAS 1: Amendments regarding the classification of debt with covenants

Amendments to IAS 8: Amendments regarding the definition of accounting estimates

Amendments to IAS 12: Amendments regarding deferred tax on leases and decommissioning obligations

Amendments to IAS 28: Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture

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.

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

Critical judgements in applying the group's accounting policies continued

Fair value accounting for FinTech Ventures investments continued

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. 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.

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 7 and 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 estimated 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

As detailed in Note 12, the Directors carry out an impairment review annually to assess whether goodwill is impaired. In doing so, the Directors assess the value in use of each cash generating unit through an internal discounted cash flow analysis. The last impairment review was carried out for the June 2022 interim reporting.

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, the impact of which is also disclosed in Note 12. Refer Notes 2(h) and 2(k) for accounting policies relating to the valuation and impairment of goodwill.

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.

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 2022 (31 December 2021: £0.5m) following a further £0.6m deployed into an existing investment during the year and then subsequently written down to £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 (2021: 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 Lending (Gibraltar) Limited, Sancus Properties Limited and Sancus Group Holdings Limited.

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 financial statements continued

For the year ended 31 December 2022

4. SEGMENTAL REPORTING continued

Year to 31 December 2022	Offshore £'000	UK £'000	Ireland £'000	Sancus Loans Limited (SLL) £'000	Sancus Debt Costs £'000	Total Sancus £'000	Reconciliation to Financial Statements				Financial Statements £'000
							Head Office £'000	SLL Debt Costs £'000	Fintech Ventures Fair Value & Forex £'000	Other £'000	
Revenue	1,372	2,679	1,547	(725)	-	4,873	-	5,116	-	-	9,989
Operating (Loss)/profit ¹	(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 (Losses)/gains	(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)
Year to 31 December 2021											
Revenue	3,810	1,480	667	(1,149)	-	4,808	-	4,137	-	77	9,022
Operating Profit/(loss) ¹	1,207	(462)	88	(1,170)	-	(337)	(1,601)	-	-	67	(1,871)
Credit Losses	(3,892)	-	-	(2,579)	-	(6,471)	-	-	-	(18)	(6,489)
Debt Costs	-	-	-	-	(1,875)	(1,875)	-	-	-	-	(1,875)
Other Gains/(losses)	56	2	(38)	(100)	-	(80)	-	-	420	10	350
Loss on JVs and associates	-	-	-	-	-	-	-	-	-	(473)	(473)
Taxation	19	-	-	-	-	19	-	-	-	-	19
(Loss)/Profit After Tax	(2,610)	(460)	50	(3,849)	(1,875)	(8,744)	(1,601)	-	420	(414)	(10,339)

1. 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 £466,000, Offshore to Ireland £127,000, Head Office to Offshore £125,000 and Offshore to Head Office £8,000.

At 31 December 2022	Offshore £'000	UK £'000	Ireland £'000	Sancus Loans Limited (SLL) £'000	Total Sancus £'000	Reconciliation to Financial Statements					Financial Statements £'000
						Head Office £'000	Investment in IOM £'000	Fintech Portfolio £'000	Other £'000	Inter Segment Balances £'000	
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 (Liabilities)/ Assets	(6,526)	(1,673)	480	(4,253)	(11,972)	19,146	-	-	-	-	7,174
At 31 December 2021											
Total Assets	45,397	11,127	586	60,504	117,614	43,129	500	500	793	(65,577)	96,959
Total Liabilities	(40,503)	(12,599)	(714)	(64,355)	(118,171)	(23,978)	-	-	(1,293)	65,577	(77,865)
Net Assets/ (liabilities)	4,894	(1,472)	(128)	(3,851)	(557)	19,151	500	500	(500)	-	19,094

Head Office liabilities include borrowings £24,042,000 (2021: £23,007,000).

5. REVENUE

	2022 £'000	2021 £'000
Co-Funder fees	1,733	1,574
Earn out (exit) fees	677	962
Transaction fees	3,063	2,862
Total revenue from contracts with customers	5,473	5,398
Interest on loans	83	168
Pollen Interest income	4,390	2,989
Sundry income	43	467
Total Revenue	9,989	9,022

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

	2022 £'000	2021 £'000
Interest costs	1,789	1,911
Pollen interest costs	5,116	4,137
Other cost of sales	704	489
Total cost of sales	7,609	6,537

Notes to the financial statements continued

For the year ended 31 December 2022

7. OPERATING EXPENSES

	2022 £'000	2021 £'000
Amortisation and depreciation	305	356
Audit fees	140	155
Company secretarial	112	124
Corporate insurance	(16)	96
Employment costs	4,858	4,363
Investor relations expenses	63	81
Legal & professional	(141)	251
Marketing expenses	255	93
NOMAD fees	75	76
Other office and administration costs	901	514
Pension costs	101	87
Registrar fees	16	31
Sundry	5	4
	6,674	6,231

8. OTHER NET GAINS/(LOSSES)

The £233,000 other net gains is made up of gains on foreign exchange £267,000 and loss on joint ventures and associates of £34,000. (2021 £557,000 other net losses: predominantly made up of losses on foreign exchange £143,000 and loss on joint ventures and associates of £473,000 offset by the profit on the sale of Sancus Property Limited properties of £59,000).

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2022 £'000	31 December 2021 £'000
At beginning of year	500	866
Additions	-	107
Share of profit of associate	-	161
Share of loss in joint venture	-	(91)
Write down joint venture/associate	-	(543)
Disposals	(500)	-
At end of year	-	500

The £500,000 investment in associate related to a 29.32% investment in Sancus (Isle of Man) Holdings Limited. This investment was disposed of on 31 January 2022 at book value.

The group has a 50% share in Amberton Limited. This investment is held at £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.

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 £14,062,000 (31 December 2022: loss of £10,339,000) by the weighted average number of Ordinary Shares (excluding treasury shares) outstanding during the period of 485,999,406 (31 December 2021: 478,141,413).

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.

	31 December 2022 £'000	31 December 2021 £'000
Number of shares	584,138,346	489,843,477
Weighted average no. of shares in issue throughout the year	485,999,406	478,141,413
Basic Loss per share	(2.89)p	(2.16)p
Diluted Loss per share	(2.89)p	(2.09)p

11. FIXED ASSETS

Cost	Right-of-use assets £'000	Property & Equipment £'000	Total £'000
At 31 December 2020	1,267	462	1,729
Additions in the year	128	15	143
Disposals	-	(14)	(14)
Leases expired	(132)	-	(132)
Lease variations	(16)	-	(16)
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

Accumulated depreciation	Right-of-use assets £'000	Property & Equipment £'000	Total £'000
At 31 December 2020	628	327	955
Charge in the year	190	51	241
Disposals	-	(14)	(14)
Leases expired	(132)	-	(132)
At 31 December 2021	686	364	1,050

Charge for the year	197	55	252
Disposals	-	(20)	(20)
At 31 December 2022	883	399	1,282

Net book value 31 December 2022	364	61	425
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Net book value 31 December 2021	561	99	660
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Notes to the financial statements continued

For the year ended 31 December 2022

12. GOODWILL

	£'000
At 31 December 2021	22,894
Impairment of Goodwill	(8,639)
At 31 December 2022	14,255

The impairment of goodwill relates to that associated with Gibraltar. As a result of poor trading a decision was made to close the Gibraltar office and hence write-off the goodwill associated with that office. The remaining goodwill of £14,255,000 relates solely to Jersey.

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 2022 interim accounts, with the next assessment due on the preparation of the 2023 interim accounts, assuming that there having been no indicators of impairment in the interim period. However, the poor trading in Gibraltar and closing of the Gibraltar office are indicators of impairment, and as such the entire goodwill relating to Gibraltar has been written off. There have been no indicators of impairment relating to the Jersey goodwill so this will next be assessed for impairment in June 2023.

At 30 June 2022 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 2022/23 to 2026/27. The starting point for each of the cash flows was the revised forecast for 2022 produced by Sancus Lending Jersey management. Management's revenue forecasts applied a compound annual growth rate (CAGR) to revenue of 25.5% and a cost of equity discount rate of 13.5%. The resultant valuation indicated that no impairment of goodwill was required.

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 13% or a sustained increase of circa 9% in the cost of Equity discount rate would remove the headroom.

Sensitivity Applied	Reduction in headroom implied by sensitivity £'000
10% decrease in revenue per annum	5,026
3% increase in cost of equity discount rate	2,490

13. OTHER INTANGIBLE ASSETS

Cost	£'000
At 31 December 2022, 31 December 2021 and 31 December 2020	1,584
Amortisation	£'000
At 31 December 2020	1,416
Charge for the year	115
At 31 December 2021	1,531
Charge for the year	53
At 31 December 2022	1,584
Net book value 31 December 2022	-
Net book value 31 December 2021	53

Other Intangible assets comprise capitalised contractors' costs and other costs related to core systems development. No impairment provision has been recorded. The amortisation charge has been recorded in Operating expenses.

14. OTHER ASSETS

	Development properties £'000
At 31 December 2020	1,015
Additions	157
Disposals	(676)
At 31 December 2021	496
Additions	210
At 31 December 2022	706

Other assets comprise of a development property which was previously held as security against a loan which had defaulted. The property is held at cost (cost being lower than its estimated net realisable value).

15. TRADE AND OTHER RECEIVABLES

	31 December 2022 £'000	31 December 2021 £'000
Loan fees, interest and similar receivables	4,673	4,146
Receivable from associated companies	5	10
Taxation	58	40
Derivative contracts (Note 22)	-	759
Other trade receivables and prepaid expenses	1,070	1,120
	5,806	6,075

Loan fees, interest and similar receivables amounted to £11,166,000 at 31 December 2022 (31 December 2021: £11,201,000) before provisions against receivables of £6,493,000 (31 December 2021: £7,055,000).

Notes to the financial statements continued

For the year ended 31 December 2022

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.

94,294,869 Ordinary shares were issued as a result of warrants that have been exercised during the year (see warrants section below. (2021: Nil).

Share Capital – ordinary shares of nil par value

	31 December 2022 Number of shares	31 December 2021 Number of shares
At beginning of the year	489,843,477	489,843,477
Issued during the year	94,294,869	-
At end of the year	584,138,346	489,843,477

Share Premium – Ordinary shares of nil par value

	31 December 2022 £'000	31 December 2021 £'000
At beginning of the year	116,218	116,218
Exercise of warrants	2,122	-
At end of the year	118,340	116,218

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 2022 Number of shares	31 December 2021 Number of shares
At beginning of the year	11,852,676	7,925,999
Sancus shares acquired on sale of BMS Finance AB Limited	-	3,926,677
At end of the year	11,852,676	11,852,676

	31 December 2022 £'000	31 December 2021 £'000
At beginning of the year	1,172	1,099
Sancus shares acquired on sale of BMS Finance AB Limited	-	73
At end of the year	1,172	1,172

Warrants in Issue

On 22 December 2020, in connection with the issue of the New Bonds, the Company issued 153,994,543 Warrants to subscribe in cash for new Ordinary Shares at a subscription price of 2.25 pence per Ordinary Share. The Warrants will be exercisable on at least 30 days notice in the period to 31 December 2025.

On 30 November 2022 Somerston Fintech (the Group's major shareholder) exercised 94,294,869 warrants at an aggregate subscription price of £2,121,635. No other warrants have been exercised in the year (year to 31 December 2021: Nil exercised).

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 2022 is £Nil (31 December 2021: £385,000).

17. LIABILITIES

	31 December 2022 £'000	31 December 2021 £'000
Non-current liabilities		
ZDP shares (1)	9,117	-
Corporate Bond (2)	14,925	12,474
Pollen Facility (3)	66,826	52,203
Lease creditors (Notes 2(u) & 24)	152	364
	91,020	65,041

	31 December 2022 £'000	31 December 2021 £'000
Current liabilities		
ZDP shares (1)	-	10,532
Accounts payable	224	93
Payable to associated companies	12	16
Interest payable	481	366
Accruals and other payables	1,472	1,519
Hedging Contracts	398	-
Taxation	145	86
Provisions for financial guarantees	413	-
Lease creditors (Notes 2(u) & 24)	212	212
	3,357	12,824

Provisions for financial guarantees are recognised in relation to ECLs on off-balance sheet loans and debtors 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).

	31 December 2022 £'000	31 December 2021 £'000
Interest costs on debt facilities		
ZDP shares (1)	831	969
Corporate Bond (2)	920	906
Pollen Facility (3)	5,116	4,137
Lease Interest	38	36
	6,905	6,048

(1) ZDP shares

The ZDP Shares have a maturity date of 5 December 2027 following a 5 year extension on 5 December 2022. The final capital entitlement will be £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 (2021: 8%). As part of the extension agreement noted above the interest rate has increased to an average of 9% per annum through to 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 the 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 2022 the Company was in compliance with these covenants as Cover Test A was 2.57 (minimum of 1.7) and the adjusted Cover Test B was 4.23 (minimum of 2.05). At 31 December 2022 senior debt borrowing capacity amounted to £15m. The Pollen facility does not impact on this capacity as it is non-recourse to Sancus.

Notes to the financial statements continued

For the year ended 31 December 2022

17. LIABILITIES continued

(1) ZDP shares continued

In addition to a tender offer on 5 December 2022, whereby the company acquired, and subsequently cancelled 931,923 ZDP shares, the company purchased a further 338,957 ZDP shares in the period 19 July 2022 to 19 August 2022.

At 31 December 2022 the Company held 12,574,705 shares (31 December 2021: 12,235,748) with an aggregate value of £20,861,686 (31 December 2022: £18,810,266).

(2) Corporate Bond

The £15m (31 December 2021: £12.575m) Corporate bonds bear interest at 7% (2021: 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 has a 10% (£7.5m) 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 2021: £1,200) is payable to the States of Guernsey in respect of this exemption.

Reconciliation of tax charge

	31 December 2022 £'000	31 December 2021 £'000
Accounting loss before tax	(14,012)	(10,358)
Gibraltar Corporation Tax at 10% (2021: 10%)	-	-
Jersey Corporation Tax at 10% (2021: 10%)	-	-
Ireland Corporation Tax at 12.5% (2021: 12.5%)	68	-
Adjustments in respect of prior years	(18)	(19)
Tax expense/(credit)	50	(19)

Certain of the Group's subsidiaries have an estimated £24m 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 profits which can utilise these losses is unknown.

19. NOTES TO THE CASH FLOW STATEMENT**Cash generated from operations (excluding loan movements)**

	31 December 2022 £'000	31 December 2021 £'000
Loss for the year	(14,062)	(10,339)
Adjustments for:		
Net losses on FinTech Ventures	894	-
Other net (gains)/losses	(86)	9
ZDP finance costs	807	874
Fair Value joint ventures and associates	34	473
Changes in expected credit losses	418	6,489
Amortisation/depreciation of fixed assets	305	356
Write off of goodwill	8,639	-
Amortisation of debt issue costs	225	202
SPL Properties	-	(59)
Changes in working capital:		
Trade and other receivables	(392)	(1,995)
Trade and other payables	(330)	(131)
Cash outflow from operations (excluding loan movements)	(3,548)	(4,121)

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 2022 £'000	Payments £'000	Receipts ¹ £'000	Debt issue costs ¹ £'000	Additions Non-cash £'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 January 2021 £'000	Payments £'000	Receipts ¹ £'000	Debt issue costs ¹ £'000	Additions Non-cash £'000	Amortisation of debt issue costs Non-cash £'000	Other Non-cash £'000	31 December 2021 £'000
ZDP Shares	12,424	(2,756) ¹	-	-	-	24	840 ²	10,532
Corporate Bond	12,473	(24) ⁴	-	-	-	25	-	12,474
Pollen Facility	44,553	-	7,500	(3)	-	153	-	52,203
Lease Liability	657	(193) ¹	-	-	128	-	(16) ³	576
Total liabilities	70,107	(2,973)	7,500	(3)	128	202	824	75,785

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.

3. Lease variations.

4. Interest within operating cash flows.

Notes to the financial statements continued

For the year ended 31 December 2022

20. CONSOLIDATED SUBSIDIARIES

The Directors consider the following entities as wholly owned subsidiaries of the Group as at 31 December 2022. 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 (Gibraltar) Limited	10 March 2015	Gibraltar	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 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 2022.

Name of Investment:	Nature of holding	Country of incorporation	Percentage holding	Measurement
FinTech Ventures:				
LiftForward Inc	Indirectly held - Equity	United States of America	18.81%	Fair Value
Finexkap	Indirectly held - Equity	France	10.76%	Fair Value
Ovamba Solutions Inc	Indirectly held - Equity	United States of America	20.18%	Fair Value
Open Energy Group Inc	Indirectly held - Equity	United States of America	22.71%	Fair Value

The percentage holdings in the above table are on a fully diluted basis, assuming any warrants and management options all vest.

22. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

	31 December 2022 £'000	31 December 2021 £'000
Sancus loans and loan equivalents		
Non-current		
Sancus loans	171	447
Sancus Loans Limited loans	23,693	6,196
Total non-current Sancus loans and loan equivalents	23,864	6,643
Current		
Sancus loans	2,790	4,269
Sancus Loans Limited loans	49,471	42,333
Total current Sancus loans and loan equivalents	52,261	46,602
Total Sancus loans and loan equivalents	76,125	53,245

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 2022		31 December 2021	
	Level 2 £'000	Level 3 £'000	Level 2 £'000	Level 3 £'000
FinTech Ventures investments	-	-	-	500
Derivative contracts	(398)	-	759	-
Total (liabilities)/assets at Fair Value	(398)	-	759	500

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 2022 (31 December 2021: £0.5m) following a further £0.6m deployed into an existing investment during the year and then subsequently being written down to £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 (2021: None).

FinTech Ventures investments

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

	Equity £'000	Loans £'000	Total £'000
31 December 2021			
Opening fair value	-	-	-
New investments/divestments	(8)	74	66
Realised gains recognised in profit and loss	8	426	434
Closing fair value	-	500	500

Assets at Amortised Cost

	31 December 2022 £'000	31 December 2021 £'000
Sancus loans and loan equivalents	76,125	53,245
Trade and other receivables	4,736	4,196
Cash and cash equivalents	4,134	12,436
Total assets at amortised cost	84,995	69,877

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

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

Liabilities at Amortised Cost

	31 December 2022 £'000	31 December 2021 £'000
ZDP Shares	9,117	10,532
Corporate Bond	14,925	12,474
Pollen Facility	66,826	52,203
Trade and other payables	2,698	2,656
Provisions in respect of guarantees	413	-
Total liabilities at amortised cost	93,979	77,865

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.

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 £4,134,000. 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

31 December 2022	Within 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Total £'000
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

31 December 2021	Within 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Total £'000
ZDP shares	10,532	-	-	10,532
Corporate bond	-	-	12,474	12,474
Sancus Loans Limited	-	-	52,203	52,203
Trade and other payables	2,292	212	152	2,656
Total liabilities	12,824	212	64,829	77,865

(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.

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

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)

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued**(3) Interest rate risk continued**

31 December 2021	Floating rate Financial Instruments £'000	Fixed Rate Financial Instruments £'000	Total £'000
Assets			
Sancus loans and loan equivalents	-	53,245	53,245
Cash and cash equivalents	12,436	-	12,436
Total assets	12,436	53,245	65,681
Liabilities			
ZDP shares	-	10,532	10,532
Corporate Bond	-	12,474	12,474
Sancus Loans Limited	-	52,203	52,203
Total liabilities	-	75,209	75,209
Total interest sensitivity gap	12,436	(21,964)	(9,528)

Interest rate sensitivities

The Group currently holds £4,134,000 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 £41,000 per annum for every 1% of negative 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.

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 2022 (31 December 2021: £0.5m) following a further £0.6m investment into an existing investment during the year and subsequently written down to £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 (2021: 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.

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, the impact of Covid-19 on real estate 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.

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued**(5) Credit risk continued****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 2022 and 31 December 2021 based on the model adopted by management.

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

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.

Sancus loans and loan equivalents at 31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Closing loans at 31 December 2020	41,972	4,047	7,213	53,232
New Loans	27,794	-	-	27,794
Loans Repaid	(17,640)	(4,578)	(3,273)	(25,491)
Transfers from Stage 1 to Stage 2	(5,739)	5,739	-	-
Transfers from Stage 1 to Stage 3	(16,247)	-	16,247	-
Transfers from Stage 2 to Stage 3	-	(368)	368	-
Loans written off	(80)	-	-	(80)
Movement in ECL	-	903	(3,113)	(2,210)
Closing loans at 31 December 2021	30,060	5,743	17,442	53,245

Loss allowance at 31 December 2021	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Closing loss allowance at 31 December 2020	-	903	3,296	4,199
Transfers from Stage 2 to Stage 3	-	(37)	37	-
Increase in provision	-	-	3,076	3,076
Utilisations	-	(866)	-	(866)
Closing loss allowance at 31 December 2021	-	-	6,409	6,409

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

	Loans	Trade Debtors	Guarantees	Total
Loss allowance at 31 December 2021	6,409	7,055	-	13,464
Charge/(credit) for the year 2022	426	(421)	413	418
Utilisations	-	(141)	-	(141)
Loss allowance at 31 December 2022	6,835	6,493	413	13,741

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.

(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 2022	31 December 2021	31 December 2020
EUR	1.1284	1.1898	1.1202
USD	1.2101	1.3527	1.3664

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 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)

Notes to the financial statements continued

For the year ended 31 December 2022

22. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

(7) Foreign exchange risk continued

At 31 December 2021

Counterparty	Settlement date	Buy Currency	Buy Amount £'000	Sell currency	Sell amount €'000	Unrealised gain £'000
EWealthGlobal Group Limited	February 2022 to May 2023	GBP	14,769	Euro	16,817	623
Liberum Wealth Limited	February 2022	GBP	1,183	Euro	1,299	92
Lumon Risk Management	April 2022 to May 2023	GBP	5,148	Euro	6,046	44
Unrealised gain on forward foreign contracts						759

23. RELATED PARTY TRANSACTIONS

Transactions with the Directors/Executive Management Team

Non-executive Directors

As at 31 December 2022, 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 2022 £	31 December 2021 £
Tracy Clarke (appointed 8 March 2022)	35,000	-
Steven Smith	50,000	50,000
John Whittle	42,500	42,500
Nick Wakefield (resigned 8 March 2022)	-	35,000

On 8 March 2022 Tracy Clarke was appointed as a non-executive Director to the Board. Tracy's directorships were listed in the RNS issued on 9 March 2022.

Tracy Clarke is a director of a number of Somerston Group companies. The Somerston Group of companies collectively holds 294,644,553 ordinary shares in the Company, representing 50.44 per cent of the current issued share capital. From time to time, the Somerston Group may participate as a Co-Funder in Sancus loans. Other than this and the Directors' fees and expenses in relation to Tracy's (and previously Nick's) appointment as a Director of the Group, the Group has not recorded any transactions with any Somerston Group companies for the period ended 31 December 2022 (31 December 2021: none).

Total Directors' fees charged to the Company for the year ended 31 December 2022 were £127,500 (31 December 2021: £138,279) with £Nil (31 December 2021: £Nil) remaining unpaid at the year-end.

Executive Management Team

The Executive Management Team consisted of Rory Mepham, Emma Stubbs, James Waghorn (appointed 8 March 2022) and Helen Trott (appointed 29 November 2022). 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:

	2022 £'000	2021 £'000
Aggregate remuneration in respect of qualifying service – fixed salary	512	598
Aggregate amounts contributed to Money Purchase pension schemes	21	24
Aggregate bonus paid (cash)	50	325

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

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 2022		31 December 2021	
	No. of Ordinary Shares Held	% of Ordinary Shares	No. of Ordinary Shares Held	% of Ordinary Shares
John Whittle	138,052	0.03	138,052	0.03
Emma Stubbs	1,380,940	0.28	1,380,940	0.28
Dan Walker	N/A	N/A	911,300	0.19

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

Mr Walker had an outstanding unsecured loan from Sancus Holdings (UK) Limited in the amount of £31,053 at 31 December 2021 and 31 December 2020. This was waived in January 2022. The loan was interest free and repayable on demand.

In addition to his Sancus salary Mr Waghorn also receives £35,000 p.a. from Somerston Capital Limited as Managing Director of Healthcare & Development for Somerston.

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 2022 £'000	31 December 2021 £'000
Net receivable from/(payable to) related parties		
Sancus (IOM) Holdings Limited ¹	N/A	(16)
Amberton Limited	(7)	10
Office and staff costs recharges		
Amberton Asset Management Limited ²	N/A	18
Amberton Limited	47	9

1. Sancus Group sold its interest in Sancus Isle of Man during the year.

2. Amberton Asset Management Limited was liquidated in 2021 (being replaced by Amberton Limited).

There is no ultimate controlling party of the Company.

24. LEASES

The Group as Lessee

Maturity Analysis – contracted undiscounted cash flows

	31 December 2022 £'000	31 December 2021 £'000
Within one year	247	247
In the second to fifth years inclusive	166	413
After five years	-	-
	413	660

All lease commitments relate to office space.

Lease liabilities included in the statement of financial position

	31 December 2022 £'000	31 December 2021 £'000
Current	212	212
Non-current	152	364
	364	576

Amounts recognised in the statement of comprehensive income

	2022 £'000	2021 £'000
Depreciation expense on right-of-use assets	197	190
Interest expense on lease liabilities	38	36
Expense related to short term leases	149	78
Income received from sub-leasing right-of-use assets	33	60

25. COMMITMENTS AND GUARANTEES

The Group's commitments and guarantees are described below.

Pollen Facility

Sancus Group has invested £13.2m (2021: £9.5m) of its own capital in Sancus Loans Limited which sits in a 10% (£7.5m) first loss position as part of the Pollen facility. Sancus has also provided Pollen with a guarantee capped at £4m following the restructure of the facility in the year (previously was capped at £2m) that it will continue to ensure the orderly wind down of the Pollen related loan book, in the event of the insolvency of Sancus Group, given its position as facility and security agent. Nothing has been provided in the accounts for this (2021: £Nil).

Sancus Loan Notes

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

Loan Note 8 was launched in January 2022 and currently stands at £3.0m. Loan Note 8 matures on 1 December 2026 and has a coupon of 5% p.a. (payable quarterly), with Sancus providing a 20% first loss guarantee.

Unfunded Commitments

As at 31 December 2022 the Group has unfunded commitments of £73.9m (31 December 2021: £47.3m). 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. EVENTS AFTER THE REPORTING DATE

Sale of Sancus Lending (Gibraltar) Limited

On 15 March 2023, the Company announced the sale of Sancus Lending (Gibraltar) Limited for £10,000 to Mr John Davey (the “Disposal”). As noted on 10 January 2023, in reviewing its operations in Gibraltar during 2022, the Company did not identify sufficient quality lending opportunities to merit continued efforts in the region and as a result the Goodwill (£8.64 million) was consequently written down to nil. The Disposal will result in cost savings of around £200,000 in relation to run-off costs, plus the avoidance of redundancies and associated expenses. In addition, it will allow the Company to focus on its core markets of the UK, Ireland and Channel Islands.

Officers and professional advisers

Non-executive Directors	Stephen Smith John Richard Whittle Tracy Clarke
Executive Directors	Rory Mepham Emma Stubbs
The address of the Directors is the company's registered office	
Executive Management Team	
Chief Executive Officer	Rory Mepham
Chief Financial Officer	Emma Stubbs
Chief Investment Officer	James Waghorn
Chief Operating officer & Legal counsel	Helen Trott
Registered Office	Block C, Hirzel Court, Hirzel Street, St Peter Port, Guernsey, GY1 2NL
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
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 Stephens, PO Box 146, Park Place, Park Street, St Peter Port Guernsey, GY1 3HZ
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



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