



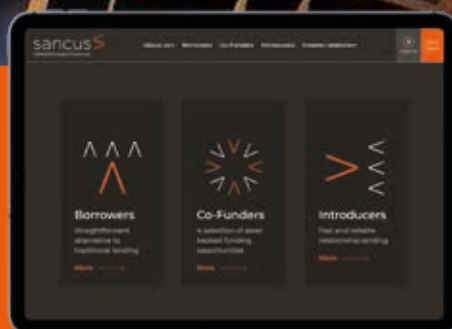
Straightforward.
Experienced.
Reliable.

Interim Report 2022

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



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Message from our CEO



Rory Mephram

Chief Executive Officer of
Sancus Lending Group Limited

> Read more on page 04

“

We started 2022 with a clear strategy to return the business to profitability, and a management team focussed on execution. In the first half of the year we have made good progress towards this as well as a number of significant positive achievements. The number of new facilities written is significantly up on last year in the UK and Ireland and I am pleased to report no further IFRS9 provisions have been made during the period, following a thorough review of the loan book last year.

Our focus on returning the Group to profitability remains our top priority. We are also looking to broaden our funder base and improve funding terms, expand the Group's presence in the UK and Ireland and grow its loan book in the Offshore markets of the Channel Islands and Gibraltar.

The next step of our plan is to address and secure our long-term financing strategy, and our ZDPs remain an integral part of this. The current maturity date of the ZDPs is 5 December 2022 and we will shortly be engaging with the holders to agree a long-term plan meeting the needs of all stakeholders whilst enabling the Group to reinvest for growth.

Highlights

Financial highlights

- > Impressive growth of new loan facilities written of £86m in the first half of the year (H1 2021: £53m) and exceeding the full year loans written in 2021 of £83m;
- > Stabilisation of the loan book with no new IFRS9 provisions made in the period (H1 2021: £3.0m loss);
- > Group revenue for the first half of the year was £4.8m (H1 2021: £5.0m); and
- > Group operating loss for the period halved to £2.1m (H1 2021: loss £4.1m).

Operational highlights

- > Significant investment in the sales and credit teams at the end of 2021 and into 2022, to support and drive growth over the coming years;
- > Focus on the maintenance of robust institutional grade credit processes, smooth loan execution, active loan management, data integrity and a proactive approach to loans that become stressed or distressed; and
- > Geographic focus remains unchanged, with the UK and Ireland the key areas of growth for the business whilst the Offshore markets currently remain the Group's largest market. UK revenue increased by 36% on last year and Ireland is up 227%.
- > Uncertain market outlook may present opportunities for well capitalised alternative lenders.

Chairman's statement

Investment in team starting to bear fruit

“

We continue working collaboratively to deliver our key goals of profitability and growth.

Steve Smith
Chairman



Introduction

Our structured change programme which will reposition the Group for growth is well underway. Our chosen markets continue to present compelling opportunities and with reduced appetite amongst traditional balance sheet lenders, we are confident we can write high quality new business.

The expansion of the sales teams has started to pay dividends with a significant improvement in new loan facilities written in the first half of the year of £86m, versus £53m written in the same period last year.

As part of a wider review of the business and the expansion of the credit and recoveries teams, we carried out a detailed review of the Group's loan book last year resulting in impairments of £6.4m in FY 2021 which at the time we believed drew a line under recent losses. I am therefore pleased to report no further IFRS9 provisions in the period.

Our people

Following last year's personnel changes, the team has settled in well and are working collaboratively to deliver our key goals of profitability and growth. The Group has invested

in rebuilding and reinforcing the team and our headcount has increased from 32 at the end of 2021 to 42 at 30 June 2022. We do not envisage further material hires. The new resource is focussed on expansion in our growth markets of the UK and Ireland and our credit and management focus as we deliver new business in the coming years.

Zero Dividend Preference Shares (“ZDPs”)

The key milestones at the end of 2020 were the new equity raise, the restructuring of our debt (Bonds and ZDPs) and the increase and extension of our facility with HIT. Somerston Group, our largest shareholder, participated in both the equity raise and new bond issue and I thank them for their continued support.

On 15 July 2022 the Group entered into a ZDP share buyback programme to purchase up to £0.5m of the ZDPs pursuant to the authority granted to the Directors by shareholders at the Group's AGM in May 2022. We fully deployed the funds we were looking to return by 19 August 2022.

The ZDPs are an integral part of the Group's finance strategy and given the maturity date of 5 December

2022, we will engage with the ZDP shareholders shortly and seek their support to restructure enabling the Group to implement its plan to return to profitability.

Dividend and Shareholders

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

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

While the Group has made good progress in the first half of the year, we do not underestimate the scale and continuing challenge ahead. I am firmly of the view that we have the right strategy, systems and personnel to put the business onto a firmer footing and return to profitability and I look forward to reporting more positive developments in the coming period.

Sourcing of funding is key for growth

“

The first half of the year saw a number of significant achievements and I am pleased with the progress made.

Rory Mephram
Chief Executive Officer



Strategic KPIs

The Board agreed the following KPI's and we have started to see improvements:

Revenue growth	> 4% down on last year due to modest progress on loan deployment. Positive upticks in our growth areas of the UK and Ireland, with the UK revenue up 36% on last year and Ireland up 227%.
Growing loans under management	> Loan book increase from £142m at the end of 2021 to £147m at the end of June 2022.
Reducing cost of funding	> This remains a focus for the Group, and we continue to seek cheaper cost of funding. We are cognisant of recent rises in base rates. To address this, we have started to implement a variable rate to borrowers based on Bank of England base rates.
Become a capital efficient business	> We continue to reduce the amount of own capital within loans, which at 30 June 2022 represented 4.2% of the total loan book, in comparison to 5.9% at the end of June 2021.
Increasing operating profits – by increasing gross margin and reducing costs	> Operating loss for H1 2022 was £2.1m against an operating loss of £4.1m last June. We have reported no further IFRS9 losses in the period. > Our cost base has increased on prior year as we focus on growth but in the future we expect the cost to revenue ratio to reduce.
Return on Equity (“ROE”)	> Going forward we plan to become profitable and increase our ROE.
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.

Overview

We saw a significant increase in loans written in H1 2022 with £86m written in the six months to June 2022 versus £53m written in the same period in 2021. This will lead to corresponding growth of loans under management as these loans are drawn.

This loan book growth has been prevalent in the UK (144% growth versus June 2021) and Irish markets (150% growth versus June 2021) where the Sancus name and reputation continue to develop. 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 H1 2022 the loan book stood at £147m, a modest increase of £5 million versus FY 2021, but we expect growth in the loan book to increase in the second half of the year as the newly written loans continue to be drawn.

Origination

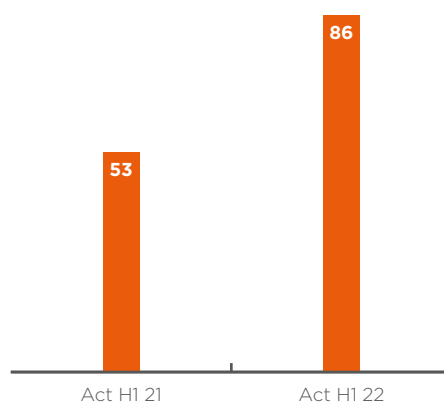
We have seen growth in new loan facilities written during the year with £86m written during the first half of 2022 against £53m for the first half of 2021 and a total of £83m in FY 2021, as the benefits of our investment in the sales and origination teams begin to come through.

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 (including the Channel Islands and Gibraltar) will continue to see attractive lending opportunities and we are confident that our businesses in these jurisdictions are well placed to execute against those opportunities as they arise.

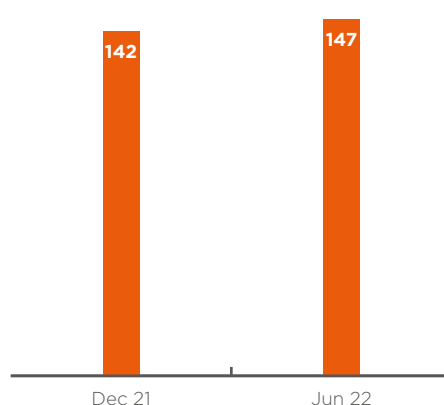
Standardisation of the loan execution process has been implemented across the Group, including documentation, conditions precedent, conditions subsequent and closing checklists. We have also implemented a new workflow process to expediate the time between the loan credit approval and loan drawdown and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

Loan management

New Facilities Written



Loans Under Management



The Sancus asset backed lending loan book increased since the end of 2021 from £142m to £147m. 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 at year-end. Further investment has been made in recruiting experienced loan management team members during the period.

“

The business continues to focus on the significant progress made in the UK and Ireland which we see as key markets for growth in the future. At the same time we intend to rebuild our loan book in the Offshore markets of Jersey, Guernsey and Gibraltar. Investment in our people, standardisation of loan execution processes and documentation across jurisdictions, robust institutional grade credit processes, and investment in our technology and data integrity are all expected to contribute to achieve our key goals of profitability and growth.

Rory Mephram

Chief Executive Officer

Chief Executive Officer's review continued

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

Funding

We continue to focus on growing the funding capacity of the business on improved terms. This is particularly important in the context of the wider economic climate where we are in a significant inflationary environment. As is widely reported, the Bank of England Bank Rate has increased from 0.1% this time last year to 2.25% at the time of writing this report (with further increases likely). Additionally, we are seeking to work with a diversified mix of funders, both private and institutional, to match funders with loans meeting their varied risk and reward criteria. Currently, the Group is reliant on four funding sources:

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

Co-Funders remain our largest funding channel, with the majority of the loan book in the Offshore markets being Co-Funded. As a proportion of total funding it has reduced from 51% at the end of December 2021 to 44% at 30 June 2022. 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.

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 £3.05 million. 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 £17.3 million. 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.

As the business matures it is planned to increase the regularity and widen the variety of Loan Note products.

Sancus has an institutional funding line from the Honeycomb Investment Trust ("HIT"), which is managed by Pollen Street Capital and is designed to complement our Co-Funder base and Loan Notes. On 3 December 2020 the HIT credit facility was increased to £75m from £45m and the term was extended to 28 January 2024. At 30 June 2022 the total drawn was £55m and at the date of this report stood at £65m (31 December 2021: £49.9m). The HIT facility continues to be strategic for the business.

Sancus has additionally secured 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 strategy.

The availability, cost and flexibility of funding is key to achieving our growth ambitions and we are reviewing the capital position of the business with a view to ensuring it is best placed to grow funding capacity on market adjusted improved terms. During the first half of 2022 the loan book funded by institutional funding increased by 5% with the majority of the UK and Irish loan book funded by this channel. We will seek to increase this along with the loan notes over time.

Finance & operations

A focus on operational efficiencies within Finance & Operations to be driven by technology wherever possible is underway. We continue to drive focus and improvement in relation to corporate governance, Compliance & Risk with the implementation of a developed risk management structure to ensure the business is well set for future growth plans.

Sancus has developed, and continues to evolve, its own proprietary loan management system ("LMS") for the administration of loans. A comprehensive review of the LMS system and our wider Technology strategy has been carried out over the course of the last year and further steps have been undertaken in 2022.

We made several hires across the business over the last year, in particular to bolster our Funding and Origination capabilities in the markets in which we are active. At the end of June 2022, the Group headcount was 42 (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.

Realising value from the legacy FinTech Ventures Investments remains a target for the management team. Monitoring and governance of FinTech Ventures continues as we assist our investee platforms with their strategy. Unfortunately, the profitability of many of these companies has failed to meet expectations within an acceptable timeframe and their ability to raise additional capital without proving concept is severely constrained. It remains a challenging market for many of the FinTech platforms.

Summary of financial performance

While Group revenue for the first half of 2022 was relatively flat on the comparative period last year at £4.8m (H1 2021: £5.0m) we have seen an increase in the UK and Irish revenues which is showing positive signs of further growth over time.

We have reported an operating loss of £2.1m (H1 2021: loss of £4.1m) and no further expected credit losses (IFRS 9) in the period (H1 2021: £3.0m loss). An increase in operating expenses in the period has been driven by the building out of our team. We expect costs to stabilise and we do not envisage growing the team in the foreseeable future.

The Group's net assets have reduced in the period from £19.1m at 31 December 2021 to £17.1m as a result of the operating loss in the period.

The Board has carried out a full impairment review of the carrying amount of goodwill and the resultant value-in-use calculation which indicated that no impairment of goodwill was required in either Sancus Lending (Jersey) or Sancus Lending (Gibraltar). The goodwill value therefore remains at £22.9m.

Group cash and cash equivalents was £8.6m at 30 June 2022. £5.4m of this related to Group operational cash and £3.2m was within Sancus Loans Limited.

We continue to reduce our on balance sheet loans (excluding those loans in Sancus Loans Limited). These amounted to £8.0m before IFRS9 provisions at 30 June 2022 compared to £9.7m at 31 December 2021 (£2.8m net of IFRS9 provisions at 30 June 2022 compared to £4.7m at 31 December 2021). Sancus Loans Limited had loans of £58.4m at 30 June 2022 (31 December 2021: £49.9m).

The Group's liabilities consist of the Bond of £12.6m which has a quarterly paid coupon of 7% p.a. and matures on 31 December 2025; and ZDPs of £10.9m with a coupon of 8% which matures on 5 December 2022. We will shortly be engaging with stakeholders to discuss restructuring the ZDPs to enable the Group to have time for its plans to be implemented and return to profitability. The HIT credit facility was increased to £75m from £45m on 3 December 2020 and stood at £55m at 30 June 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.

H1 2022 has been focused on starting to define our ESG strategy. Having now established an internal ESG focus group we will also draw 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 are well on our way to completing a materiality assessment and intend to engage with stakeholders in the coming period.

We will report more fully on this in our 2022 Annual Report.

Outlook

Despite the uncertain outlook for the economy, the perennial imbalance between supply and demand for housing continues to offer a favourable landscape for the Group's anticipated growth in its target markets. The economic uncertainty is likely to lead to the continued retrenchment of Banks from both SME and development financing which further provides attractive opportunities for alternative lenders. We continue to track the geopolitical situation closely and note the potential for further supply chain disruption and inflationary risks in the construction sector.

We continue to be enthusiastic about the opportunities that lie ahead of us and look forward to delivering profitability.

Rory Mephram
Chief Executive Officer

23 September 2022

Risks, uncertainties and responsibility statement [For] the period ended 30 June 2022

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remainder of the financial year. These include, but are not limited to, Capital and liquidity risk, Regulatory and compliance risk, Market risk, Credit risk with respect to the loan book (primarily bridging loans and, increasingly, development loans), Operational risk and the execution of Sancus strategy. These risks remain unchanged from December 2021 and are not expected to change in the 6 months to the end of the financial year. Further details on these risks and uncertainties can be found in the December 2021 Annual Report.

Responsibility statement

The Directors confirm that to the best of their knowledge:

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

Approved and signed on behalf of the Board of Directors

23 September 2022

Independent review report on interim financial information

For the period ended 30 June 2022

Conclusion

We have been engaged by Sancus Lending Group Limited (the 'Company') to review the condensed set of consolidated financial statements in the Interim Report for the six months ended 30 June 2022 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in shareholders' equity, the condensed consolidated statement of cash flows and related Notes 1 to 19.

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

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the UK and the AIM Rules of the London Stock Exchange.

Basis for Conclusion

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

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

Conclusions Relating to Going Concern

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

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

Responsibilities of directors

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

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

Auditor's Responsibilities for the review of the financial information

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

Moore Stephens Audit and Assurance (Guernsey) Limited

Level 2 Park Place
Park Street
St Peter Port
Guernsey, GY1 3HZ

23 September 2022

Condensed consolidated statement of comprehensive income (unaudited)

For the period ended 30 June 2022

		Period ended 30 June 2022 (unaudited) £'000	Period ended 30 June 2021 (unaudited) £'000
	Notes		
Revenue	4	4,823	5,002
Cost of sales	5	(3,560)	(3,386)
Gross profit		1,263	1,616
Operating expenses	6	(3,350)	(2,671)
Changes in expected credit losses	17	-	(3,028)
Operating loss		(2,087)	(4,083)
FinTech Ventures fair value movement	17	114	8
Other net losses		(9)	(95)
Loss for the period before tax		(1,982)	(4,170)
Income tax expense		-	(58)
Loss for the period after tax		(1,982)	(4,228)
Items that may be reclassified subsequently to profit and loss			
Foreign exchange arising on consolidation		10	9
Other comprehensive income for the period after tax		10	9
Total comprehensive loss for the period		(1,972)	(4,219)
Basic loss per Ordinary Share	7	(0.41)p	(0.88)p
Diluted loss per Ordinary Share		(0.41)p	(0.81)p

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

Condensed consolidated statement of financial position (unaudited)

As at 30 June 2022

	Notes	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
ASSETS			
Non-current assets			
Fixed assets	8	549	660
Goodwill	9	22,894	22,894
Other intangible assets	10	21	53
Sancus loans and loan equivalents	17	43,111	6,643
FinTech Ventures investments	17	850	500
Investments in joint ventures and associates		-	500
Other investments		100	100
Total non-current assets		67,525	31,350
Current assets			
Other assets	12	674	496
Sancus loans and loan equivalents	17	16,480	46,602
Trade and other receivables	11	5,242	6,075
Cash and cash equivalents		8,609	12,436
Total current assets		31,005	65,609
Total assets		98,530	96,959

	Notes	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
EQUITY			
Share premium	13	116,218	116,218
Treasury shares	13	(1,172)	(1,172)
Other reserves		(97,924)	(95,952)
Total Equity		17,122	19,094
LIABILITIES			
Non-current liabilities			
Borrowings		67,260	64,677
Other liabilities		253	364
Total non-current liabilities	14	67,513	65,041
Current liabilities			
Borrowings	14	10,944	10,532
Trade and other payables	14	1,859	1,628
Tax liabilities	14	104	86
Provisions	14	70	-
Other liabilities	14	918	578
Total current liabilities		13,895	12,824
Total liabilities		81,408	77,865
Total equity and liabilities		98,530	96,959

The financial statements were approved by the Board of Directors on 23 September 2022 and were signed on its behalf by:

Director: John Whittle

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

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

For the period ended 30 June 2022

	Share Premium £'000	Treasury Shares £'000	Warrants Outstanding £'000	Foreign Exchange Reserve £'000	Retained Earnings/ (Losses) £'000	Total Equity £'000
Balance at 31 December 2021 (audited)	116,218	(1,172)	385	11	(96,348)	19,094
Fair value of warrants	-	-	(385)	-	385	-
Transactions with owners	-	-	(385)	-	385	-
Total comprehensive profit/(loss) for the period	-	-	-	10	(1,982)	(1,972)
Balance at 30 June 2022 (unaudited)	116,218	(1,172)	-	21	(97,945)	17,122
Balance at 31 December 2020 (audited)	116,218	(1,099)	847	(1)	(86,471)	29,494
Acquired on sale of BMS Finance AB	-	(73)	-	-	-	(73)
Fair value of warrants	-	-	616	-	(616)	-
Transactions with owners	-	(73)	616	-	(616)	(73)
Total comprehensive profit/(loss) for the period	-	-	-	9	(4,228)	(4,219)
Balance at 30 June 2021 (unaudited)	116,218	(1,172)	1,463	8	(91,315)	25,202

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

Condensed consolidated statement of cash flows (unaudited)

For the period ended 30 June 2022

	Notes	Period ended 30 June 2022 (unaudited) £'000	Period ended 30 June 2021 (unaudited) £'000
Cash outflow from operations, excluding loan movements	15	(626)	(2,654)
Decrease / (Increase) in Sancus loans		195	(2,298)
Decrease in loans to UK and Irish SARLS		-	1,796
(Increase) / Decrease in loans through the HIT facility		(5,840)	4,518
Investment in Sancus Loan notes		-	(50)
Net cash (outflow) / inflow from operating activities		(6,271)	1,312
Cash inflows / (outflows) from investing activities			
Divestment / (Investment) in IOM Preference Shares		516	(16)
Net (Investments) / Repayments in FinTech Ventures		(236)	(492)
(Investment) / Divestment in joint ventures		(50)	9
Expenditure on SPL Properties	12	(178)	(52)
Sale of SPL Properties		-	51
Expenditure on fixed assets and intangibles		(14)	(4)
Net cash inflow / (outflow) from investing activities		38	(504)
Cash inflows / (outflows) from financing activities			
Draw down of HIT facility	15	2,500	2,496
Capital element of lease payments	15	(104)	(97)
Repayment of ZDPs	15	-	(2,756)
Net cash inflow / (outflow) from financing activities		2,396	(357)
Effects of Exchange		10	9
Net (decrease) / increase in cash and cash equivalents		(3,827)	460
Cash and cash equivalents at beginning of period		12,436	15,786
Cash and cash equivalents at end of period		8,609	16,246

£3.2m of the £8.6m cash held at 30 June 2022 is for the exclusive use of Sancus Loans Limited (June 2021: £12.4m of the £16.2m).

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

Notes to the condensed interim financial statements

For the period ended 30 June 2022

1. GENERAL INFORMATION

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

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

The Company has taken advantage of the exemption conferred by the Companies (Guernsey) Law, 2008, Section 244, not to prepare company only financial statements which is consistent with the 2021 Annual Report.

2. ACCOUNTING POLICIES

(a) Basis of preparation

These condensed consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standard (IAS) 34 'Interim Financial Reporting', as adopted by the United Kingdom and all applicable requirements of Guernsey Company Law. They do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company's annual audited financial statements for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the United Kingdom.

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

These financial statements were authorised for issue by the Company Directors on 23 September 2022.

(b) Principal accounting policies

The same accounting policies and methods of computation are followed in these financial statements as in the last annual financial statements for the year ended 31 December 2021.

(c) Going Concern

The Directors have considered the going concern basis in the preparation of the financial statements as supported by the Director's assessment of the Company's and Group's ability to pay its debts as they fall due and have assessed the current position and the principal risks facing the business with a view to assessing the prospects of the Company.

Liabilities which fall due in the next 12 months include the final capital entitlement of the Company's ZDPs which are repayable on 5 December 2022 at £10.7m.

As part of the Group's growth plan the Company is considering its options regarding this liability which may include re-financing, part repayment and/or extension of the ZDPs and an equity raise. This will require consultation with the relevant stakeholders, including ordinary shareholders and ZDP shareholders and regulatory approvals and consents. Accordingly, there can be no certainty that the proposals will proceed.

These factors and assumptions constitute a material uncertainty that may cast significant doubt over the Company's ability to continue as a going concern, such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors expect that if they are able to action the mitigations in accordance with the plan outlined above, the material uncertainty will be extinguished. The Directors are therefore of the opinion that the Company will have adequate financial resources to continue in operation and meet its liabilities as they fall due for the foreseeable future and continue to adopt the going concern basis in preparing the financial statements.

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

The critical accounting estimates and judgements are as outlined in the financial statements for the year ended 31 December 2021.

3. SEGMENTAL REPORTING

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

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

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

1. Offshore

Contains the operations of Sancus Lending (Jersey) Limited, Sancus Lending (Guernsey) Limited, Sancus 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 condensed interim financial statements continued

For the period ended 30 June 2022

3. SEGMENTAL REPORTING continued

Six months to 30 June 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 Fair Value & Forex £'000	Other £'000	
Revenue	658	1,386	752	(251)	-	2,545	-	2,278	-	-	4,823
Operating Profit/ (loss) ¹	(481)	(319)	467	(259)	-	(592)	(618)	-	-	(17)	(1,227)
Credit Losses	191	-	-	(191)	-	-	-	-	-	-	-
Debt Costs	-	-	-	-	(860)	(860)	-	-	-	-	(860)
Other Gains/(losses)	24	-	5	(34)	-	(5)	5	-	155	-	155
Loss on JVs and associates	-	-	-	-	-	-	-	-	-	(50)	(50)
Taxation	-	-	-	-	-	-	-	-	-	-	-
Profit/(loss) after tax	(266)	(319)	472	(484)	(860)	(1,457)	(613)	-	155	(67)	(1,982)
Six months to 30 June 2021											
Revenue	1,883	1,018	230	(239)	-	2,892	-	2,033	-	77	5,002
Operating Profit/ (loss) ¹	685	136	(8)	(248)	-	565	(693)	-	-	73	(55)
Credit Losses	(2,270)	-	-	(746)	-	(3,016)	-	-	-	(12)	(3,028)
Debt Costs	-	-	-	-	(1,000)	(1,000)	-	-	-	-	(1,000)
Other Gains/(losses)	96	2	(26)	1	-	73	-	-	(4)	(49)	20
Loss on JVs and associates	-	-	-	-	-	-	-	-	-	(107)	(107)
Taxation	(58)	-	-	-	-	(58)	-	-	-	-	(58)
Profit/(loss) after tax	(1,547)	138	(34)	(993)	(1,000)	(3,436)	(693)	-	(4)	(95)	(4,228)

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 £220,000, Offshore to Ireland £37,000, Head Office to Offshore £62,500 and UK to Head Office £31,000. "Other" includes FinTech (excluding fair value and forex).

At 30 June 2022						Reconciliation to Financial Statements					Financial Statements £'000
	Offshore £'000	UK £'000	Ireland £'000	Sancus Loans Limited (SLL) £'000	Total Sancus £'000	Head Office £'000	Investment in IOM £'000	FinTech Portfolio £'000	Other £'000	Inter Company Balances £'000	
Total Assets	43,991	11,908	534	63,252	119,685	42,820	-	850	477	(65,302)	98,530
Total Liabilities	(40,295)	(13,055)	(180)	(67,659)	(121,189)	(24,194)	-	-	(1,327)	65,302	(81,408)
Net Assets/ (liabilities)	3,696	(1,147)	354	(4,407)	(1,504)	18,626	-	850	(850)	-	17,122
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 £23.4m (December 2021: £23m). Other FinTech assets and liabilities are included within "Other".

4. REVENUE

	30 June 2022 (unaudited) £'000	30 June 2021 (unaudited) £'000
Co-Funder fees	767	777
Earn out (exit) fees	260	270
Transaction fees	1,711	1,662
Total revenue from contracts with customers	2,738	2,709
Interest on loans	58	117
HIT interest income	2,027	1,794
Other income	-	382
Total Revenue	4,823	5,002

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

5. COST OF SALES

	30 June 2022 (unaudited) £'000	30 June 2021 (unaudited) £'000
Interest costs	881	1,016
HIT interest costs	2,278	2,033
Other cost of sales	401	337
Total cost of sales	3,560	3,386

6. OPERATING EXPENSES

	30 June 2022 (unaudited) £'000	30 June 2021 (unaudited) £'000
Administration and secretarial fees	61	67
Amortisation and depreciation	157	195
Audit fees	69	84
Corporate Insurance	69	27
Directors Remuneration	64	69
Employment costs	2,201	1,719
Investor relations expenses	30	37
Legal and professional fees	82	123
Marketing expenses	126	20
NOMAD fees	38	38
Other office and administration costs	385	247
Pension costs	51	28
Registrar fees	15	15
Sundry	2	2
Total operating expenses	3,350	2,671

7. LOSS PER ORDINARY SHARE

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

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

	30 June 2022 (unaudited)	30 June 2021 (unaudited)
Number of shares in issue	489,843,477	489,843,477
Weighted average number of shares outstanding	477,990,801	478,294,522
Loss attributable to Ordinary Shareholders in the period	£1,982,000	£4,228,000
Basic Loss per Ordinary Share	(0.41)p	(0.88)p
Diluted Loss per Ordinary Share	(0.41)p	(0.81)p

8. FIXED ASSETS

	Right of use assets £'000	Property & Equipment £'000	Total £'000
Cost			
At 31 December 2021	1,247	463	1,710
Additions in the period	-	14	14
Disposals	-	(15)	(15)
At 30 June 2022	1,247	462	1,709
Accumulated depreciation	£'000	£'000	£'000
At 31 December 2021	686	364	1,050
Charge in the period	98	27	125
Disposals	-	(15)	(15)
At 30 June 2022	784	376	1,160
Net book value 30 June 2022	463	86	549
Net book value 31 December 2021	561	99	660

9. GOODWILL

Goodwill at 30 June 2022 and 31 December 2021 comprises:

	£'000
Sancus Lending (Jersey)	14,255
Sancus Lending (Gibraltar)	8,639
Total	22,894

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 annual review is due on 30 June each year. As a result the Board has assessed the Goodwill for impairment on 30 June 2022.

The value in use of Sancus Lending (Jersey) and Sancus Lending (Gibraltar) 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 the year 2022/23 produced by Jersey and Gibraltar management. Management's revenue forecasts applied a compound annual growth rate (CAGR) to revenue of 25.5% and 11.2% for Jersey and Gibraltar respectively. A cost of equity discount rate of 13.5% was employed in the valuation model for Jersey and 14.0% for Gibraltar. The resultant valuation indicated that no impairment of goodwill was required in either Jersey or Gibraltar, with significant headroom.

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

9. GOODWILL *continued*

Goodwill valuation sensitivities

When the discounted cash flow valuation methodology is utilised as the primary goodwill impairment test, the variables which influence the results most significantly are the discount rates applied to the future cash flows and the revenue forecasts. The table below shows the impact on the Consolidated Statement of Comprehensive Income of stress testing the period end goodwill valuation with a decrease in revenues of 10% and an increase in cost of equity discount rate of 3%. These potential changes in key assumptions fall within historic variations experienced by the business (taking other factors into account) and are therefore deemed reasonable. The current model reveals that a sustained decrease in revenue of circa 13% for Jersey and circa 20% for Gibraltar or a sustained increase of circa 9% in the cost of Equity discount rate for Jersey and circa 11% for Gibraltar would remove the headroom.

Sensitivity Applied	Reduction in headroom implied by sensitivity		
	Jersey £'000	Gibraltar £'000	Total £'000
10% decrease in revenue per annum	5,026	2,483	7,509
3% increase in cost of Equity discount rate	2,490	1,619	4,109

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

10. OTHER INTANGIBLE ASSETS

	£'000
Cost	
At 30 June 2022 and 31 December 2021	1,584
Amortisation	
At 31 December 2021	1,531
Charge for the period	32
At 30 June 2022	1,563
Net book value at 30 June 2022	21
Net book value at 31 December 2021	53

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

11. TRADE AND OTHER RECEIVABLES

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Current		
Loan fees, interest and similar receivable	3,285	4,146
Receivable from associated companies	12	10
Taxation	32	40
Derivative contracts (Note 17)	-	759
Other trade receivables and prepaid expenses	1,913	1,120
	5,242	6,075

12. OTHER ASSETS

	Development properties £'000
Cost	
At 31 December 2020	1,015
Additions	157
Disposals	(676)
At 31 December 2021	496
Additions	178
At 30 June 2022	674

Other assets are developments which were previously held as security against certain loans which have defaulted. These assets are held at the lower of cost and net realisable value. The remaining £674,000 comprises of one development property which is held at cost.

13. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE

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

No Ordinary Shares were issued in the period to 30 June 2022 (Period to 30 June 2021: Nil).

Share Capital

Number of Ordinary Shares – nil par value	Shares in issue
At 30 June 2022 (unaudited) and 31 December 2021 (audited)	489,843,477

Share Premium

Ordinary Shares – nil par value	£'000
At 30 June 2022 (unaudited) and 31 December 2021 (audited)	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

	30 June 2022 (unaudited) Number of shares	31 December 2021 (audited) Number of shares
Balance at start of the period/year	11,852,676	7,925,999
Sancus Lending Group shares acquired on the sale of BMS Finance AB	-	3,926,677
Balance at end of period/year	11,852,676	11,852,676

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Balance at start of the period/year	1,172	1,099
Sancus Lending Group shares acquired on the sale of BMS Finance AB	-	73
Balance at end of period/year	1,172	1,172

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

13. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE continued

Warrants in Issue

On 22 December 2020, in connection with the issue of 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. As at 30 June 2022 and up to the date of signing these condensed interim financial statements none of these warrants have been exercised. The warrants are classified as equity instruments because a fixed amount of cash is exchangeable for a fixed amount of equity, there being no other features which could justify a financial liability classification. The fair value of the Warrants at 30 June 2022 is £Nil (31 December 2021: £385,000).

14. LIABILITIES

Non-current liabilities

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Corporate bond (1)	12,487	12,474
HIT facility (2)	54,773	52,203
Lease Creditor	253	364
Total non-current liabilities	67,513	65,041

Current liabilities

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
ZDP shares (3)	10,944	10,532
Accounts payable	160	93
Accruals and other payables	1,699	1,519
Taxation	104	86
Payable to associated companies	-	16
Interest payable	378	366
Derivative contracts (note 17)	321	-
Provisions	70	-
Lease creditor	219	212
Total current liabilities	13,895	12,824

Movement on provision for financial guarantees

	£'000
At 31 December 2020	1,542
Profit and loss credit in the year	(1,542)
At 31 December 2021	-
Profit and loss charge in the period	70
At 30 June 2022	70

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

(1) Corporate Bond

On 22 December 2020 Sancus Lending Group issued £12,575,000 corporate bonds of which £3,875,000 were rolled from the existing £10m bonds (the remaining £6,125,000 being repaid) and £8,700,000 issued for cash. Over the term of the bonds £15m may be issued. The bond maturity date is 31 December 2025 and they bear interest at 7% (2021: 7%).

(2) HIT Facility

On 29 January 2018, Sancus signed a new funding facility with Honeycomb Investment Trust plc (HIT). The funding line had a term of 3 years and comprised of a £45m accordion and revolving credit facility. On 3 December 2020 the term of the facility was extended to 28 January 2024. On the same date the facility was increased to £75m. The facility bears interest at 7.25%. The HIT 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 an obligation to maintain a 10% first loss position on the HIT facility. Sancus Lending Group has also provided HIT with a guarantee, capped at £2m that will continue to ensure the orderly wind down of the loan book, in the event of the insolvency of Sancus Group Holdings Limited, given its position as facility and security agent.

(3) ZDP shares

The ZDPs have a maturity date of 5 December 2022 with a final capital entitlement of £1.6464 per ZDP share, and bear interest at an average rate of 8.0% (2021: 8.0%).

Refer to the Company's Memorandum and Articles of Incorporation for full detail of the rights attached to the ZDPs. This document can be accessed via the Company's website www.sancus.com.

In accordance with article 7.5.5 of the Articles, the Company may not incur more than £30m of long term debt without the prior approval from the ZDP shareholders. The Articles also specify that two debt cover tests must be met in relation to the ZDPs. At 30 June 2022 the Company was in compliance with these covenants as Cover Test A was 3.14 (minimum of 1.7) and Cover Test B was 5.65 (minimum of 3.25).

At the period end senior debt borrowing capacity amounted to £17.4m. The HIT facility does not impact on this capacity as this is non-recourse to the Company.

The number of ZDPs in issue at 30 June 2022 and 31 December 2021 was 19,101,384 of which 12,235,748 (31 December 2021: 12,235,748) with an aggregate value of £19,522,833 (31 December 2021: £18,810,266) are held by the Company.

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

15. NOTES TO THE CASH FLOW STATEMENT

Cash outflow from operations (excluding loan movements)

	30 June 2022 (unaudited) £'000	30 June 2021 (unaudited) £'000
Loss for the period	(1,982)	(4,228)
Adjustments for:		
Net gain on FinTech Ventures	(114)	(8)
Other net losses / (gains)	417	88
Adjustment in carrying value of Sancus IOM Holdings Limited	-	116
Accrued interest on ZDPs	400	468
Impairment of financial assets	-	3,028
Gain on SPL assets	-	(51)
Gain on purchase of ZDPs	-	(34)
Amortisation / depreciation of fixed assets	157	195
Amortisation of debt issue costs	95	105
Changes in working capital:		
Trade and other receivables	82	(1,793)
Trade and other payables	319	(540)
Cash outflow from operations, excluding loan movements	(626)	(2,654)

Changes in liabilities arising from financing activities

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

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

	1 January 2021 £'000	Financing cash flows ¹ £'000	Amortisation of debt issue costs Non-cash £'000	Other Non-cash £'000	30 June 2021 £'000
ZDP Shares	12,424	(2,756)	12	434 ²	10,114
Corporate Bond	12,473	-	12	(24) ²	12,461
HIT Facility	44,553	2,496	81	-	47,130
Lease Liability	657	(97)	-	(16) ³	544
Total liabilities from financing activities	70,107	(357)	105	394	70,249

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

² Interest accruals.

³ Lease variation.

16. RELATED PARTY TRANSACTIONS

Transactions with the Directors/Executive Team

Non-executive Directors

As at 30 June 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:

	30 June 2022 £	30 June 2021 £
Patrick Firth (Previous chairman – resigned 31 August 2021)	-	50,000
Stephen Smith (Chairman)	50,000	35,000
John Whittle	42,500	42,500
Nick Wakefield (resigned 8 March 2022)	-	35,000
Tracy Clarke (appointed 9 March 2022)	35,000	-

On 9 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 200,349,684 ordinary shares in the Company, representing 40.9 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 30 June 2022 (30 June 2021: none).

Total Directors' fees charged to the Company for the period ended 30 June 2022 were £63,750 (30 June 2021: £68,640).

Executive Team

For the period ended 30 June 2022, the Executive Team members' remuneration from the Company, excluding all reasonable expenses incurred in the course of their duties which were reimbursed by the Company, were as detailed in the table below:

	30 June 2022 £'000	30 June 2021 £'000
Aggregate remuneration in respect of qualifying service – fixed salary	238	303
Aggregate amounts contributed to Money Purchase pension schemes	10	8
Aggregate bonus paid	-	125

All amounts have been charged to Operating Expenses.

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

16. RELATED PARTY TRANSACTIONS continued

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

As at 30 June 2022, the Directors had the following beneficial interests in the Ordinary Shares of the Company:

	30 June 2022		31 December 2021	
	No. of Ordinary Shares Held	% of total issued Ordinary Shares	No. of Ordinary Shares Held	% of total issued Ordinary Shares
John Whittle	138,052	0.03	138,052	0.03
Emma Stubbs	1,380,940	0.28	1,380,940	0.28
Dan Walker ¹	-	-	911,300	0.19

¹ Dan Walker resigned 31 January 2022.

In the six month period to June 2022 and the year to December 2021, none of the above received any amounts relating to their shareholding.

Transactions with connected entities

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

Receivable from/(payable to) related parties

	30 June 2022 £'000	31 December 2021 £'000
Sancus (IOM) Holdings Limited ¹	-	(16)
Amberton Limited	12	10

¹ Sancus (IOM) Holdings Limited ceased to be a connected entity on 31 January 2022 when the Group sold its interest.

Net Cost recharges

	30 June 2022 £'000	31 December 2021 £'000
Amberton Limited	4	18

There is no ultimate controlling party of the Company.

17. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Sancus loans and loan equivalents

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
Non-current		
Sancus loans	786	447
Sancus Loans Limited loans	42,325	6,196
Total Non-current Sancus loans and loan equivalents	43,111	6,643
Current		
Sancus loans	2,059	4,269
Sancus Loans Limited loans	14,421	42,333
Total Current Sancus loans and loan equivalents	16,480	46,602
Total Sancus loans and loan equivalents	59,591	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:

	30 June 2022 (unaudited)		31 December 2021 (audited)	
	Level 2 £'000	Level 3 £'000	Level 2 £'000	Level 3 £'000
Fintech Ventures investments	–	850	–	500
Derivative contracts	(321)	–	759	–
Total assets / liabilities at fair value	(321)	850	759	500

The classification and valuation methodology remains as noted in the 2021 Annual Report.

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

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

All of the FinTech Ventures investments are categorised as Level 3 in the fair value hierarchy. In the past the Directors have estimated the fair value of financial instruments using discounted cash flow methodology, comparable market transactions, recent capital raises and other transactional data including the performance of the respective businesses. Having considered the terms, rights and characteristics of the equity and loan stock held by the Group in the FinTech Ventures investments, as well as the challenges that have faced the platforms during the pandemic, the Board's estimate of liquidation value of these assets is £0.85m at 30 June 2022 (31 December 2021: £0.5m) following £0.35m deployed into an existing investment in March 2022. 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 £0.85m. There have been no transfers between levels in the period (2021: None).

Assets at Amortised Cost

	30 June 2022 (unaudited) £'000	31 December 2021 (unaudited) £'000
Sancus loans and loan equivalents	59,591	53,245
Trade and other receivables	3,329	4,196
Cash and cash equivalents	8,609	12,436
Total assets at amortised cost	71,529	69,877

Liabilities at Amortised Cost

	30 June 2022 (unaudited) £'000	31 December 2021 (audited) £'000
ZDP shares	10,944	10,532
Corporate Bond	12,487	12,474
HIT facility	54,773	52,203
Trade and other payables	3,204	2,656
Total liabilities at amortised cost	81,408	77,865

Refer to Note 14 for further information on liabilities.

FinTech Ventures Investments

30 June 2022	Total Portfolio £'000
At 31 December 2021	500
Net new investments / loan repaid	236
Realised gain recognised in profit and loss	114
At 30 June 2022	850

31 December 2020	Total Portfolio £'000
At 31 December 2020	–
Net new investments / (divestments)	66
Realised gain recognised in profit and loss	434
At 31 December 2021	500

Credit Risk

Credit risk is defined as the risk that a borrower/debtor may fail to make required repayments within the contracted timescale. The Group invests in senior debt, senior subordinated debt, junior subordinated debt and secured loans. Credit risk is taken in direct lending to third party borrowers, investing in loan funds, lending to associated platforms and loans arranged by associated platforms. The Group mitigates credit risk by only entering into agreements related to loan instruments in which there is sufficient security held against the loans or where the operating strength of the investee companies is considered sufficient to support the loan amounts outstanding.

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

Foreign Exchange Risk – Derivative instruments

The Treasury Committee Team monitors the Group's currency position on a regular basis, and the Board of Directors reviews it on a quarterly basis. Loans denominated in Euros which are taken out through the HIT facility are hedged. Forward contracts to sell Euros at loan maturity dates are entered into when loans are drawn in Euros. At 30 June 2022 the following forward foreign exchange contracts were open:

June 2022

Counterparty	Settlement date	Buy Currency	Buy Amount £'000	Sell currency	Sell amount €'000	Unrealised loss £'000
EWealthGlobal Group	July 2022 to May 2023	GBP	7,883	Euro	9,245	(149)
Lumon Risk Management	July 2022 to May 2023	GBP	13,557	Euro	15,839	(172)
Unrealised loss on forward foreign contracts						(321)

December 2021

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

No hedging has been taken out against investments in the FinTech Ventures platforms (2021: £Nil).

Notes to the condensed interim financial statements continued

For the period ended 30 June 2022

17. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT continued

Provision for ECL

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

A probability of default is assigned to each loan. This probability of default is arrived at by reference to historical data and the ongoing status of each loan which is reviewed on a regular basis. The probability of loss is arrived at with reference to the LTV and consideration of cash that can be redeemed on recovery.

Movement of provision for ECL

	Loans £'000	Trade Debtors £'000	Guarantees £'000	Total £'000
Loss allowance at 31 December 2020	4,199	2,190	1,542	7,931
Charge/(credit) for the year 2021	3,076	4,865	(1,542)	6,399
Utilised in the year 2021	(866)	-	-	(866)
Loss allowance at 31 December 2021	6,409	7,055	-	13,464
Charge/(credit) for the period to June 2022	372	(442)	70	-
Utilised in the period to June 2022	-	(141)	-	(141)
Loss allowance at 30 June 2022	6,781	6,472	70	13,323

18. GUARANTEES

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

HIT Facility

Sancus Group has a 10% first loss position as part of the HIT facility. Sancus Group has also provided HIT with a guarantee, capped at £2m that it will continue to ensure the orderly wind down of the HIT related loan book, in the event of the insolvency of Sancus Group Holdings Limited, given its position as facility and security agent.

Sancus Loan Notes

SLN7 launched on 10 May 2021. At the end of June 2022 it had £17.4m of assets. Sancus Group Holdings Limited has a 10% first loss position on this loan note.

SLN8 launched on 10 March 2022. At the end of June 2022 it had £3.0m of assets. Sancus Group Holdings Limited has a 20% first loss position on this loan note.

Commitments

As at 30 June 2022 the Group has unfunded commitments of £69.4m (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 and/or by our secured funding lines.

19. POST BALANCE SHEET EVENTS

Between 30 June 2022 and the signing of these financial statements the Company purchased the following ZDP shares.

Date of Purchase	Number of shares purchased	Purchase price per share (£)
19 July 2022	25,000	1.38
21 July 2022	35,000	1.39
22 July 2022	17,993	1.41
28 July 2022	10,000	1.42
8 August 2022	5,000	1.46
9 August 2022	43,200	1.44
12 August 2022	6,000	1.48
15 August 2022	10,000	1.50
16 August 2022	5,000	1.50
17 August 2022	5,000	1.49
19 August 2022	176,764	1.54

Following these transactions, the Company has 19,101,384 ZDP shares in issue of which 12,574,705 are held by the Company. The total number of ZDP share voting rights is therefore 6,526,679.

Officers and professional advisers

For the period ended 30 June 2022

Directors

Non-executive:

Steve Smith (Chairman)
John Richard Whittle
Tracy Clarke

Executive:

Rory Mepham
Emma Stubbs

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

Executive Team:

Chief Executive Officer:	Rory Mepham
Chief Financial Officer:	Emma Stubbs
Chief Investment Officer:	James Waghorn

Registered office:

Block C, Hirzel Court, St Peter Port, Guernsey, GY1 2NL, Channel Islands

Nominated Adviser and Broker:

Liberum Capital Limited, Ropemaker Place, 25 Ropemaker Street, London, EC2Y 9LY, United Kingdom

Company Secretary:

Sanne Fund Services (Guernsey) Limited, Sarnia House, Le Truchot, St Peter Port, Guernsey, GY1 1GR, Channel Islands

Legal Advisers, Channel Islands:	Carey Olsen, P.O. Box 98, Carey House, Les Banques, St Peter Port, Guernsey, GY1 4BZ, Channel Islands
Legal Advisers, UK:	Stephenson Harwood, 1 Finsbury Circus, London, EC2M 7SH, United Kingdom
Legal Advisers, US:	Troutman Pepper, 3000 Two Logan Square, Eighteenth and Arch Streets, Philadelphia, PA 19103-2799, United States
Bankers:	Barclays International, 1st Floor, 39041 Broad Street, St Helier, Jersey, JE4 8NE
Auditors:	Moore Stephens, P.O. Box 146, Park Place, Park Street, St Peter Port, Guernsey, GY1 3HZ, Channel Islands
Registrar:	Link Market Services Limited, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, United Kingdom
Public Relations:	Instinctif Partners Limited, 65 Gresham Street, London, EC2V 7NQ, United Kingdom

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