25 March 2019

GLI Finance Limited

("the Group" or "GLI")

Final Results for the Year Ended 31 December 2018

GLI Finance (AIM: GLIF) announces its audited final results for the year ended 31 December 2018.

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Total revenue	13,221	11,634
Operating profit before credit losses	745	101
Operating (loss) / profit	(2,265)	101
Loss before tax	(23,164)	(15,184)
Basic and diluted Loss Per Share	(7.57p)	(5.01p)

HIGHLIGHTS

Group Highlights

- Group Revenue for the year was up 14% at £13.2m (2017: £11.6m) with operating profit before credit losses at £0.75m (2017: £0.1m) and operating losses for the year at £2.3m (2017: profit £0.1m) after the inclusion of IFRS 9 provisions which became effective on 1 January 2018.
- The Group is focused on the repayment of the Zero Dividend Preference shares ("ZDPs") due on 5 December 2019 and it commenced a buyback of these during the year with 1.5m ZDPs being acquired during 2018 and a further 1.6m ZDPs acquired post year-end. Post year-end the Group is seeking authority from shareholders to acquire up to a further 14.99% of ZDPs issued.
- The funding of the ZDPs throughout 2019 and the repayment of the principal due on maturity is expected to come from existing cash and cash from the realisation of on balance sheet loans as they mature.
- Further simplification of the Group following the closure of supply chain finance and focus on asset backed lending.

Strategic Review

- Our business strategy is focused on maximising returns for shareholders. We recognise that this has not been entirely positive over recent years as we have faced inherited challenges on the FinTech Ventures portfolio, however whilst we have made improvements on the cost side, we recognise that more needs to be done to improve profitability and the Group is focussed on achieving this.
- Key financial metrics* for Sancus BMS which management are focussing on and which we will report on going forward, are:
    - Return on tangible assets ("ROTA");
    - Cost income ratio; and
    - Loan Deployment.
- Focus is on lowering debt (with the repayment of the ZDPs in December 2019) and reducing our on-balance sheet loan exposure which in turn will increase ROTA.
- In accordance with the Group's stated policy of paying dividends out of net cash generation, no dividend will be declared for the period, but we will look to reinstate these when we are in a positive cashflow position.

Sancus BMS Highlights

- Revenue growth of 28% by the main operating unit, Sancus BMS, to £13.3m from £10.3m in the prior year.
- Sancus BMS operating profit before credit losses was up 82% to £2.8m (2017: £1.6m).
- Total cumulative loans advanced across Sancus BMS now at £1bn (prior year £797m) with actual loss rate of under 1% reflecting strong underwriting controls.

- The special purpose lending vehicle established in January 2018 with a £50m lending capacity, backed by a £45m credit facility with Honeycomb Investment Trust plc ("HIT") is providing a useful funding source. £22.9m had been drawn as at 31 December 2018.
- Announced discontinuation of the supply chain finance product line in February 2019, with focus in the UK on asset backed lending in Sancus Funding, our FCA regulated entity.
- Successful launch of Sancus Ireland during the year providing euro loan options for our client base.

FinTech Ventures Highlights

- The carrying value of FinTech Ventures portfolio at 31 December 2018 was £13.8m (2017: £29.6m).
- NAV per share for FinTech Ventures at 31 December 2018 was 5.1 pence (2017:10.0 pence).
- The write down in the year of £19.6m is across 8 platforms, as a result of market challenges in securing additional growth capital. It is clearly disappointing to take a further large write down and we continue to review our options to achieve the greatest potential return from the portfolio.
- 55% increase in loan origination across the portfolio companies compared to prior year.
- Four platforms have successfully raised new equity from third parties during the year. However, in some cases, we experienced greater dilution of our holding than expected. Several of the other platforms are looking to raise equity over the next twelve months and we have conservatively approached the valuation of those platforms with these difficult market conditions in mind.
- On a selective basis, GLI invested £2.6m across five of the platforms during the year, primarily in the form of convertible loan notes, to support their growth and protect our position as much as possible.

Note: *Performance measurement calculations are included in Note 27.

This announcement contains inside information for the purposes of EU Regulation 596/2014.

Andy Whelan, Chief Executive Officer commented:

"The Group has seen mixed progress during 2018, with improving revenue, successfully securing a new funding line and reducing costs across the business balanced against poor developments in the FinTech Ventures portfolio.

We are pleased that Sancus BMS, the key operating unit within the Group, has delivered some positive results during the year. The lending businesses that comprise Sancus BMS are strong, well managed, and have the ability to deliver a very attractive return on capital. We were delighted to have secured the £45m credit facility from HIT announced in January 2018 and this has helped us significantly grow the loan book. The new management team in the UK is making excellent progress in integrating the businesses and delivering synergies.

We are very disappointed to have had to take a further material write down on the FinTech Ventures portfolio. Whilst FinTech as a sector continues to grow strongly, increased competition is making it increasingly difficult for smaller players, particularly those that are loss making, to raise further equity. Given the plethora of investment opportunities, investors are often able to negotiate favourable terms. With competing demands for our capital, we often haven't been able to follow our money, and this has resulted in situations where we have been significantly diluted. Several of our platforms are looking to raise equity over the next twelve months, and given the material write-downs incurred, we believe there is upside potential if these raises are successful."

Enquiries

GLI Finance Limited
Andy Whelan
+44 (0)1534 708900

Liberum Capital (Nominated Adviser and Corporate Broker)
Chris Clarke
Steve Pearce
Trystan Cullen
+44 (0) 20 3100 2000

Instinctif Partners (PR Advisor)
Tim Linacre
Katie Bairsto
+44 (0)207 457 2020

CHAIRMAN'S STATEMENT

Our priorities remain on maximising the earning potential of our two distinct business units. Sancus BMS comprises the Group's property backed and SME lending businesses. FinTech Ventures represents the Group's investments in 11 SME focussed FinTech lending platforms.

Sancus BMS continues to deliver strong growth and we are confident this growth will continue, as we increase our market share and launch into new markets such as Ireland. The launch of a special purpose lending vehicle with a £50m lending capacity, backed by a £45m facility with HIT in January of 2018 was an important step in the expansion plans for Sancus BMS. The implementation of the line is an endorsement of the thorough credit processes used within Sancus BMS and, as evidenced by the revenue growth seen during the year, this is proving a success.

The FinTech Ventures portfolio continues to pose challenges and it is disappointing to see further significant write downs during the year. Whilst the loan origination across the platforms has grown strongly, most of the platforms are taking longer to achieve profitability than they had previously forecast. In many cases, this is causing many of the platforms to need to secure further equity financing, which is further diluting our holding.

The CEO report goes into further detail around our strategy and the repayment plan of our ZDPs on 5 December 2019. Our strategy focuses on value creation for shareholders and we will look to reduce our on-balance sheet loan book over time and reduce our debt, which in turn will increase our return on tangible assets.

Overview

We expect the economies in which we operate to remain supportive of our businesses for the foreseeable future. Whilst Brexit will create some uncertainties and it is difficult to predict the outcome, we anticipate that Brexit will also create opportunities for the Group. The alternative finance sector continues to develop rapidly, and we believe we are well positioned to benefit from this trend across both parts of our business.

Sancus BMS continues to grow, and we have a solid, cash generating business with a strong pipeline and some exciting growth plans. The funding facility helps to support this growth, but we are also continuing to secure a steady flow of new co-funders due to the attractive risk adjusted returns which are available on our lending opportunities. We have hired our first two employees for our new Sancus asset backed lending business in Ireland, and the first 2 loans have been made in February 2019. We have announced that we are to close our supply chain finance offering, and this will allow the UK sales team to focus on asset backed lending and education finance. The work to restructure our UK operations has commenced and we are making good progress with the launch of the Sancus Trading Platform which is a fully online transactional platform. The further write downs within the FinTech Ventures portfolio is a major disappointment. We continue to assist the various management teams and Boards with their respective strategies and where they do deliver against their plans, we could see a material uplift against the current valuation levels. However, these platforms are still exposed to execution risk.

Dividend and Shareholders

In line with our dividend policy, it is not proposed to declare a dividend for this period, but we are committed to reinstating one as soon as feasible. I am grateful to all our shareholders who have kept confidence with the Group through what has been a challenging period as reflected in the depressed share price. We believe that the share price is trading well below the inherent value of the business and we look forward to seeing it recover in due course on the back of the strong growth delivered by the Executive Team within Sancus BMS.

Patrick Firth
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

During the year Sancus BMS has seen strong revenue growth and loan deployment with total loan origination reaching £1billion across Sancus BMS. I am therefore disappointed that our 2018 results have again suffered further write downs in the FinTech Ventures portfolio. In accordance with IFRS 9 which was a new standard introduced on 1 January 2018, we have made provisions for expected future credit losses against our loan book and fully provided for one supply chain finance exposure of £0.9m in respect of which the underlying company went into administration in January 2019. The impact of transition to this new standard was a £1.4m charge recorded through opening reserves with a £1.2m movement in the provision for the year. Also, for the first time this year there is a provision line against a new entity called Sancus Properties Limited ("SPL") which was set up to hold repossessed assets from a borrower. This work out will take some time with part of this portfolio of assets being developed to maximise returns. Until this is complete we are measuring these assets at the lower of cost or net realisable value ("NRV").

The outcome of the adjustments noted above means that we are reporting an operating loss of £2.3m for the Group, against a £0.1m profit last year. However, the operating profit before changes in expected credit losses and impairment charges was £0.7m profit against a £0.1m profit in 2017, noting that IFRS 9 was not introduced until 1 January 2018. The increase in the operating profit before expected credit losses demonstrates the strong progress that we have made across the business during the year and is a significant improvement compared to the prior year. We continue to grow our market share and as the Sancus brand is becoming increasingly well known, we are receiving a healthy flow of new lending opportunities and have a strong pipeline of new co-funders.

Our ZDPs mature on 5 December 2019 and the repayment of these has been a focus of the Board over recent months. As part of a new strategic plan we will reduce our on-balance sheet loan exposure and use loan repayment proceeds to repay the ZDPs.

Part of our new strategic plan was a decision to cease the supply chain finance product line which was loss making, as announced in February 2019. Although we had seen improvements in performance, we witnessed changes in the markets with credit insurers reducing appetite to write cover and increasing premium levels markedly. Going forward we will continue to carry out education finance, but the main focus will be on asset backed lending in the UK through Sancus Funding which is FCA regulated. This is an area we know well and in which we have experience; we saw £30m of asset backed loans being deployed in the UK during 2018. These went through the Sancus Jersey platform as our UK platform was being built, but our new UK Trading Platform is live. Over time we expect this to be our largest market. Sancus Ireland was also launched in the second half of 2018 and we anticipate this will add to our growth plans and we are also considering new jurisdictions such as the Cayman Islands.

I am pleased with the continued progress we have made on the execution of the strategy. I expect the strong Sancus BMS growth rates to continue into 2019 and beyond as we are in the driving seat of this business with a healthy pipeline of loan origination. The FinTech Ventures portfolio has been a major disappointment and it is very frustrating that the good results seen in Sancus BMS Group are over-shadowed by these write downs, which are out of our control. However, we will continue to work hard on this portfolio and explore exits where we can realise appropriate value for shareholders.

I have provided below further detail on the operational and financial performance of the Group and Sancus BMS and FinTech Ventures separately.

Sancus BMS

Financial Highlights

I am delighted by the 28% increase in revenue within the Sancus BMS Group and this is testament to the hard work of the senior management team to build our profile in the markets in which we operate and secure a strong pipeline of new lending opportunities whilst also deepening our base of co-funders. The HIT facility has also strengthened our ability to fund larger loan opportunities and helped contribute to the increase in revenues.

We continue to manage costs carefully and have seen a nominal 2% increase in operating costs in the year, which reflect a commencement of operations in Ireland. Going forward, following the closure of the supply chain finance offering, we expect material headcount reductions and associated cost reductions.

Loan Book

Sancus BMS continues to show strong growth with the total loan book advances increasing 12% from the end of 2017 to £246m, despite discontinuing activities from the sale of the BMS Irish Fund during the year. With the launch of Ireland and now Sancus Funding focusing on asset backed lending, we expect loan origination to increase.

Co-Funders

The Sancus Loan Notes (“SLNs”) comprise a planned series of Special Purpose Vehicles (“SPVs”) designed to act like securitisation vehicles to help offset capital constraints and enable additional co-funder participation in loan opportunities. These are attractive to new clients that want to participate in a pooled vehicle, delivered across a number of loans, rather than via direct participation in individual loans. SLN4 had a successful launch in July 2018, and the initial £5.9m invested has now grown to £7.4m, with a maximum capacity of £15m. In November 2018, SLN5 was initially launched with £7.6m and has a maximum raise of £50m. As part of the structure of the loan notes, Sancus BMS provides first loss positions and further details are outlined in Note 26 to the accounts.

Sancus Funding

Sancus Funding changed its name from Funding Knight at the beginning of 2018, with the platform having obtained full FCA authorisation. Sancus Finance, as announced, is closing its supply chain finance offering, although we will still continue with education finance. A new Managing Director, Dan Walker, joined at the beginning of 2018 and has been focussed on the restructuring of these entities and improving the revenue, whilst reducing the cost base.

BMS

On 3 July 2018, we announced that we had sold the loan assets held within the BMS Irish Fund at par and in September 2018 this realised £6.4m in cash with a further £0.1m to be received once the structure is fully wound up. Some of this cash has been used to purchase some GLI ZDPs which we believe will deliver a strong return on investment given the ZDPs have been trading at a price significantly below their true accrued capital entitlement. The remaining cash has been redeployed for general investment purposes including the launch of Sancus BMS' property backed lending business in Ireland.

IT

The Group continues to invest in its technology. Following the successful launch of the Group’s proprietary Loan Management System (LMS) in 2017, an online reporting platform for offshore co-funders has been rolled out in 2018. This platform has been well received by co-funders as it provides real time access to all of their account information and any new co-funding opportunities, including statements, details of loans in which they have participated, and all supporting documentation. A fully online, transactional platform, covering all Sancus UK’s lending solutions has now also been launched in the UK.

IFRS 9

With the introduction of IFRS 9 on 1 January 2018 we have a year-end provision of £2.6m following the methodology as set out in Note 20, which is on an expected credit loss model. Our actual loss rate to date still remains low across the Sancus BMS portfolio at less than 1% reflecting our strong underwriting criteria and procedures. As highlighted by the IFRS 9 provision, there is always the risk of further defaults and potential losses as lending is clearly not risk free, however the expected risk adjusted return is considered very attractive.

Sancus Properties Limited
We noted in our Interim Report that in August 2018 a 100% owned SPV called Sancus Properties Limited (previously Sancus Developments Limited) was incorporated and entered into a Development Framework Agreement regarding security previously held by a former borrower. In addition, a further portfolio of real estate assets previously held by the borrower were acquired by the Company. The intention is to realise these assets via orderly transactions, the timing of which will be determined so as to best maximise shareholder value. These are reported as other assets and accounted for under IAS 2 Inventories whereby they are held at the lower of cost or net realisable value. At 31 December 2018 these had a value assigned to them of £4.4m and consist of a combination of houses, apartments and a large plot of land. The intention is to develop the land to obtain the greatest return with the existing houses and apartments, either on the market for sale now, or will be shortly.

FinTech Ventures

It is a huge disappointment to be reporting further write downs in the FinTech Ventures portfolio. As we have previously outlined, we are largely a passenger on this journey and due to capital constraints, we have not been able to follow our money and participate in the latest capital raisings conducted by these platforms. Whilst FinTech as a sector continues to grow strongly, the increased competition is making it increasingly difficult for smaller players, particularly those that are loss making, to raise further equity. Investors are much more discerning about potential valuations and are seeking key unique service propositions as to why a particular platform will succeed. For several of our platforms, it is disappointingly taking longer for them to achieve breakeven than previously forecasted. Four of the platforms successfully raised new capital during 2018 and several are currently seeking to raise further equity to fund further growth and to see them through to sustained profitability.

Competing demands for our capital means that the platforms have largely had to secure new third-party investors. Given the plethora of investment opportunities, these investors are often able to negotiate favourable terms and frustratingly, we often haven't been able to follow our money. In some cases, this has resulted in us being significantly diluted, particularly where the Executive Management teams have needed to be issued with further equity to ensure they are appropriately incentivised. With several of our platforms looking to raise equity over the next twelve months, we have factored this scenario, and potential dilution, into our current carrying values.

The movement in foreign currency rates since 31 December 2017 has resulted in a £0.9m increase in the fair value of our investments, primarily arising from the 6% appreciation of USD versus GBP.

We continue to improve the level of monitoring and influence over the platforms in which we hold investments in order to protect our interests particularly during this challenging period and Aaron Le Cornu is now overseeing the majority of these investments, allowing me to focus on building out the Sancus business I created.

Summary of Financial Performance

The net operating profit before credit losses of £0.7m shows a positive improvement on 2017 (£0.1m) following an increase in revenues and a focus on cost control. With the introduction of IFRS 9 in the year and the take on of repossessed assets in SPL we are reporting a net operating loss of £2.3m versus a £0.1m profit in 2017. In addition, we have had a total of £19.6m fair value write down on the FinTech Ventures portfolio which is clearly very disappointing.

Whilst these are not the results we wanted, nor expected, to report for the year, we are confident of building on this performance by improving profits and looking to get back to a position where we can recommence paying dividends, in line with our policy noted below. The focus on driving efficiencies has enabled us to reduce head office costs by a further £0.7m in the year, totalling £2.7m savings over the last 2 years. This has been achieved by insourcing more functions and reducing headcount within the UK operations and with the planned restructuring of the Group we expect to reduce costs further whilst increasing revenue from expanding our UK and Irish operations.

FinTech Ventures portfolio continues to be a challenge and as I have noted before, we are largely a passenger, but with Board and advisory rights. FinTech Ventures now represents 14% of our gross assets (down from 28% in the prior year) but we still spend a lot of time and effort working with the management teams of the platforms on their strategic priorities and capital raisings. 2018 has been a key year for many of the platforms with four of them raising fresh equity from third parties. Whilst most of the platforms are growing, it is typically at a slower rate than previously envisaged, which is extending the period to achieve break even. This is creating the need for the platforms to secure further growth capital. In several cases, new investors are leveraging the opportunity to secure a larger share of the platform resulting in early investors, such as ourselves, who are restricted in terms of the amount of capital we are able to put in, being heavily diluted.

Dividend Policy

The Group dividend policy recognises the need to balance dividend payments in the short term with the opportunities to grow the business for shareholders in the longer term. As such the Group's policy is to make dividend payments which are consistent with prudent capital and liquidity management, covered by cash earnings and realised profits on the sale of investments. In line with this dividend policy, no dividend is being declared for this period.

Related Party Transactions

Related party transactions are disclosed in Note 23. There have been no material changes in the related party transactions described in the last annual report.

Governance, Risk Management and Operations

Effective governance processes both at subsidiary and holding company level continue to be a priority for the Board. This is critical to ensuring that only well-considered risks are taken, and expected returns emerge as planned. At Group level we have implemented projects to take a more strategic approach to the assessment, reporting and management of investment risk.

The development of the digital trading platform continues with increased on-line functionality for co-funders. This has now been rolled out to Sancus UK clients, allowing them to participate online in asset backed lending opportunities.

Long-term strategy and business objectives

Since the end of 2016 we have made good progress in delivering against the objectives we agreed as a Board. We have this year updated these objectives to include an update on our future strategy regarding the repayment of the ZDPs in December 2019 and the shape of the business going forward with the focus on value creation, creating a capital light business which in turn will enable us to pay dividends.

Sancus BMS is our core operating unit and we have seen this continue to grow strongly. The coordination across the executive and senior management team, complemented with strong new business development expertise, is delivering a healthy flow and pipeline of lending opportunities. Our solid reputation in the markets in which we operate is also enabling us to lower our cost of funding, through the extension of our successful loan note program and the credit facility from HIT.

We are looking at our options for the FinTech Ventures portfolio and we will communicate any developments to shareholders as appropriate and in due course. It has certainly been a difficult and challenging journey over the years with the FinTech Ventures portfolio. Many of the platforms have reached key points in their development and the market for raising equity and debt financing is challenging, which has had a material impact on the latest valuations.

However, we do still believe that the best option is to retain our economic interest so that we can hopefully benefit from any upside against current valuations for those platforms which do deliver on their strategy and forecasts. We are however acutely aware that we do not have excess capital to deploy into the platforms, and thus we are seeking a structure where we can retain the potential for future upside whilst limiting the demand for further capital deployment.

Brexit

The uncertainties created by Brexit make it very difficult to predict what impact this will have on the UK property lending market. However, Sancus BMS has further tightened its credit processes to decline proposals where the repayment strategy is based upon bull market behaviour. This was due to our continued fears during 2018 that global economies are at or are reaching the peak of this long bull market cycle and the threat of a global recession or correction in stock and bond markets is increasing.

There is no doubt that the global economy is entering a volatile period and Brexit is adding further stress. We do believe that the medium term benefits will be positive for alternative lenders as banks will step back further from their lending activities as they closely monitor their Tier 1 Capital ratios. In the immediate future, businesses may pause and take a “watch and see” approach for new projects, however for already committed projects we expect them to continue to push forward and execute on their plan.

In any stressful period there are arbitrage pricing opportunities and Sancus will seek to benefit from such instability.

Outlook

2019 is going to be a year of reorganisation as we build out the Sancus BMS entities and focus on value creation for shareholders. Our target is to deleverage our balance sheet and become a capital light business, which in turn will enable us to start paying dividends again. The ZDP repayment is key for us this year and as set out in our strategic review we have a clear plan of how we will execute this and be able to start afresh in 2020. Managements’ focus is on improving profitability ROTA and we expect that by 2021 we will be reporting a much more positive picture.

As noted above we are exploring ways we can maximise the FinTech Ventures portfolio and I hope to be able to communicate a definitive plan in due course.

Andrew Whelan
Chief Executive Officer

FINANCIAL REVIEW

Overview

The business is split into 2 operating units, Sancus BMS and FinTech Ventures. In addition, there are Group operating costs, which are split out separately below. In the table, the results of these operating units are shown with highlights for the year being a 28%

improvement in revenue and operating profits before credit losses in Sancus BMS increasing from £1.6m in 2017 to £2.8m in the current year.

Financial Results for the year ended 31 December 2018 (Table 1)

Statement of Comprehensive Income	**2018 £'000**	**2017 £'000**	**Movement %**	**Movement £'000**
Sancus BMS				
Revenue	13,261	10,341	28%	2,920
Total cost of sales	(3,983)	(2,448)	(63%)	(1,535)
Gross profit	9,278	7,893	18%	1,385
Operating expenses	(6,449)	(6,340)	(2%)	(109)
Operating profit before credit losses	**2,829**	**1,553**	**82%**	**1,276**
Changes in expected credit losses	(1,247)	-	(100%)	(1,247)
Impairment charges on financial assets	(1,763)	-	(100%)	(1,763)
Operating (loss) profit	**(181)**	**1,553**	**(112%)**	**(1,734)**
Other net gains/(losses)	(121)	(400)	70%	279
Goodwill impairment	(2,139)	-	(100%)	(2,139)
Tax	(243)	(20)	(1115%)	(223)
Total (loss)/profit after tax	**(2,684)**	**1,133**	**(337%)**	**(3,817)**
FinTech Ventures				
Revenue	(40)	1,293	(103%)	(1,333)
Operating expenses	(677)	(1,673)	60%	996
FinTech Ventures fair value adjustment	(19,634)	(11,919)	(65%)	(7,715)
FinTech Ventures Forex	928	(1,540)	160%	2,468
Other net gains/(losses)	310	(453)	168%	763
Total loss after tax	**(19,113)**	**(14,292)**	**(34%)**	**(4,821)**
Group Treasury				
Operating expenses	(1,367)	(1,072)	(28%)	(295)
SSIF loss on disposal/fair value adjustment	**-**	(953)	100%	953
Total loss after tax	**(1,367)**	**(2,025)**	**32%**	**658**
Total Group loss after tax	**(23,164)**	**(15,184)**	**(53%)**	**(7,980)**

Sancus BMS

Sancus BMS saw revenue increase by 28% in the year, partly from revenue from HIT (£1.9m, 2017:Nil) which is now consolidated but also from a growth in the individual entities which on a like for like basis (excluding SSIF in 2017 of £0.3m), was 13%. Cost of sales also increased in the year from the inclusion of the HIT debt cost which was £1.6m (2017:Nil), which still resulted in an increase in gross profit of 18% to £9.3m. Sancus BMS's operating expenses as shown in Note 4, have increased marginally in the year to £6.4m compared to £6.3m in 2017. This is as a result of investment into business development resources and the expansion of its operations, although this has been offset to a certain extent by further cost savings in Sancus Finance and Sancus Funding.

This resulted in an 82% increase in operating profit before credit losses to £2.8m from £1.6m in 2017.

For the first time this year we are reporting changes in expected credit losses in accordance with IFRS 9 which was £1.2m and a £1.8m impairment charge on financial assets which relates to the value assigned to repossessed assets of a previous borrower, some of which are being developed and whereby the intention is to try and re-coup some of these losses incurred on initial acquisition. Other net gains and losses include the equity movement on Amberton which is accounted for as a joint venture and Sancus Isle of Man whereby we own 29%.

The goodwill impairment of £2.1m was in relation to Sancus Finance which was adjusted at interim. A full impairment review was carried out on Sancus Jersey and Sancus Gibraltar at the year-end on a DCF model with the conclusion no impairment was required. This resulted in a total loss after tax for Sancus BMS of £2.7m (2017: profit £1.1m).

FinTech Ventures

FinTech Ventures which has been discussed in the CEO report in detail has disappointingly suffered further material write downs, with the portfolio now valued at £13.8m, plus £1.8m for interest and loans receivable so total net assets of £15.6m (2017: Total net assets £31.1m). Post year-end the interest receivable balance reduced by £0.5m following cash receipt of interest due on one of the loans.

The interest income revenue has reduced compared to previous years as we are only making selective new investments to protect our position on certain platforms. During 2018, we have written down accrued interest on loans and preference shares where we have concerns around potential recoverability. We have benefited from our holdings in the USD platforms, producing a £0.9m foreign exchange gain in the year. We have also received £0.2m of cash relating to a FinTech Ventures related loan which had previously been written down to zero.

Operating expenses are allocated to FinTech Ventures on a percentage basis of Group overall costs. Aaron Le Cornu continues to get more involved with the FinTech Ventures platforms, now having Board seats on five of them, which is freeing up the time of our CEO, Andy Whelan, to focus more on Sancus BMS and Group corporate activities. Accordingly, we have reduced the amount of operating costs allocated to FinTech Ventures this year to £0.7m (2017: £1.7m).

Group

As noted above, we allocate Group and FinTech operating costs on an allocation basis and the total of these costs was £2.0m in 2018 compared to £2.7m in 2017. £1.4m of these costs has been allocated to Group this year (2017: £1.1m).

In 2018 this has therefore produced savings of £0.7m. In 2016, the total Group and FinTech Ventures operating costs were £4.7m, so over the last 2 years, £2.7m has been saved. These cost savings have predominantly come from a reduction in staff, legal and professional costs and other administrative costs.

Cash management and debt costs

The focus during 2018 and ongoing into 2019 has been the repayment plan for the ZDPs. We have been managing cash carefully and have been buying back ZDPs as they become available in the market and will continue to do so in 2019 by managing the cash returned on the maturing Sancus BMS loans.

To measure business unit performance, finance costs are allocated to Sancus BMS to recognise its use of the Group's debt facilities in its lending activities. FinTech Ventures is treated as being funded by equity. This allocation best matches the risk profile of each business unit with its capital structure, as well as recognising that interest costs are effectively serviced by interest income from Sancus BMS.

Total cost of sales of £4.0m for 2018 (2017: £2.4m) includes: debt interest costs on the ZDPs and Bond of £1.8m (2017: £2.2m); £1.6m interest on the HIT facility (2017: £Nil) and broker fees of £0.6m (2017: £0.3m).

At the year end, interest bearing debt comprised:

- £10m 5-year Bond (7%) matures 30 June 2021, interest paid half yearly;
- £19.2m 2019 ZDPs (5.5%) income entitlement and principal due on expiry 5 December 2019 (£25.2m); and
- £22.9m HIT facility (7.25%) (total facility £45m), interest paid monthly.

The Group has been acquiring ZDPs in the market during the year and post year-end the Group has acquired up to the 14.99% allowance of shares issued as approved by Shareholders at the 2018 AGM. This has reduced the net amount due on 5 December 2019 to £23.1m.

Financial Position (Table 2)

£'000	31 December 2018	31 December 2017
Sancus BMS on Balance Sheet loans and loan equivalents	26,678	46,326
HIT Loans	25,639	-
Goodwill	22,894	25,033
FinTech Ventures Loan and loan equivalents	883	908
FinTech Ventures Investment Portfolio	13,804	29,598
Sancus Properties Limited	4,404	-
Trade and other receivables	5,656	4,170
Other assets	3,784	3,401
Cash and cash equivalents	5,863	3,016
Total Assets	**109,605**	**112,452**
ZDPs payable	(24,059)	(24,714)
Bond payable	(10,000)	(10,000)
HIT Debt	(22,684)	-
Other Liabilities	(2,635)	(2,935)
Total Liabilities	**(59,378)**	**(37,649)**
Group net assets	**50,227**	**74,803**

The Group's net assets have decreased in the year by £24.6m to £50.2m. The majority of this movement is due to the £19.6m write down on the FinTech Ventures portfolio, £2.1m Goodwill impairment and IFRS 9 loan impairment adjustments.

The Group's liabilities are £59.4m but with £22.7m relating to the HIT facility.

Sancus BMS on Balance Sheet loans and loan equivalents (Table 3)

£'000	31 December 2018	31 December 2017
Jersey	8,219	4,808
Gibraltar	6,268	5,896
Guernsey	310	718
BMS – Investment in the funds and other loans	10,074	22,045
Sancus UK	143	1,002
Sancus Loan Notes	3,311	10,907
IOM preference shares	950	950
IFRS 9 Provision	(2,597)	-
Total Sancus BMS on Balance Sheet Loans and loan equivalents	**26,678**	**46,326**

The reduction in Sancus BMS on Balance Sheet loans and loan equivalents from £46.3m in 2017 to £26.7m is due to the repayment of SLN1 in the year (£7.6m) and the repayment of the BMS Irish Loan book and part repayment of the BMS UK Loan book, totalling £11.5m.

£5m of the SLN1 repayment was reinvested in SLL (HIT loans of £25.6m), which is backed by the HIT credit facility and where the Group holds £5m in equity as a first loss position. Post year-end, the Sancus Loan Note £3.3m and the IOM preference shares were repaid.

HIT Funding Facility

A special purpose loan vehicle called Sancus Loans Limited, which is non-recourse to GLI, was established at the start of the year with a £50m funding capacity. This has been backed by a £45m credit facility from HIT, with a term of 3 years. Although non-recourse to GLI the SPV is 100% owned by the Group and is therefore consolidated. As a result, both the SLL loans and HIT facility appear on the consolidated balance sheet. To also note in the consolidated numbers, cash held by SLL is included of £0.4m and interest receivables was £1m, causing part of the increase seen in cash and other receivables noted above.

Cash Flow

Cash generated from operating activities, excluding loan movements, for the year was £0.1m compared to cash used of £2.5m in 2017. The major operating cash flows during the year included £7.7m invested in BMS Finance Loans (2017: £5.4m), £25.6m invested in Sancus Loans Limited loans (2017: £Nil), proceeds from the sale of the Irish Sarl investment of £11.5m and £8.1m received from the repayment of Sancus Loan Notes (2017: £3.0m paid out to participate in Sancus Loan Notes). In respect of investing activities £2.6m was invested in FinTech Ventures primarily in the form of convertible loan notes (2017: £6.5m) and £1.0m was invested in Sancus (IOM) preference shares. In respect of financing activities £22.6m (after costs) was received from the drawdown of the HIT facility (2017: £11.9m payment to repay the syndicated loan) and £1.8m was used to purchase ZDP shares.

Sancus BMS

Financial Review

Financial Results of the operating entities in Sancus BMS

The results noted below are on a like for like basis. There has been one adjustment made to the 2017 revenue number which is to exclude the SSIF dividends which ceased in March 2017 when the fund was sold. Total 2017 Sancus BMS revenue per Note 4 is £10.341m, less £0.303m SSIF dividends is £10.038m as shown below.

Table 4

	2018					2017					2018 v 2017 Movement	
£'000	**Sancus**	**BMS**	**Sancus UK***	**SLL**	**Total**	**Sancus**	**BMS**	**Sancus UK ***	**SLL**	**Total**	**%**	**£'000**
Total revenue	7,218	2,890	1,248	1,905	13,261	5,363	3,588	1,087	-	10,038	32%	3,223
Other cost of sales	(124)	-	(428)	-	(552)	(15)	-	(255)	-	(270)	(104%)	(282)
Operating expenses	(3,013)	(1,349)	(2,077)	(10)	(6,449)	(2,510)	(1,469)	(2,361)	-	(6,340)	(2%)	(109)
Operating profit/(loss) before debt costs	4,081	1,541	(1,257)	1,895	6,260	2,838	2,119	(1,529)	-	3,428	83%	2,832
Allocated debt	(1,834)			(1,597)	(3,431)	(1,878)			-	(1,878)	(83%)	(1,553)

costs												
Operating profit before credit losses					**2,829**					**1,550**	**83%**	**1,279**
Changes in ECL's					(1,247)					-	(100%)	(1,247)
Impairments on financial assets					(1,763)					-	(100%)	(1,763)
Operating (loss)/profit					**(181)**					**1,550**	**(112%)**	**(1,731)**
Cost income ratio (Note 27)	41.7%	46.7%	166.4%	0.5%	48.6%	46.8%	40.9%	217.2%	-	63.2%	23%	14.5%
Total Loan Book £m	*142.4*	*49.1*	*13.8*	*25.6*	*230.9*	*118.9*	*81.3*	*18.2*	-	*218.4*	*6%*	*13*
On Balance sheet loans £m	*19.0***	*10.1****	*0.1*	*5.0*	*34.3*	*23.2***	*22.0****	*1.0*	-	*46.2*	*(26%)*	*(12)*

*Sancus Finance and Sancus Funding combined results.
** Sancus Loan Notes included in Sancus total.
*** 2018 Includes BMS UK Fund, 2017 includes BMS UK and Irish fund loans held by GLI £1m and BMS £21m.

Year on year, revenue has increased by 32% (28% if including SSIF in 2017) with operating expenses remaining flat in total overall. From the start of 2018 SLL is consolidated into the numbers, so after debt costs, operating profit before credit losses was £2.8m compared to £1.6m last year. This year we have made IFRS 9 provisions against our loan book exposure with a £1.2m charge to the SOCI. We have also reported an impairment loss on financial assets of £1.8m against some repossessed assets which until they are developed and sold we are required to report these at the lower of Cost and NRV, hence the write down.

We have seen a marginal increase in costs within Sancus BMS, the net effect of the team being built out to expand operations in Ireland and the offshore entities, but savings on headcount made in the UK. With the announced closure of our supply chain finance offering, operating costs will decrease and we would expect that the offshore costs have stabilised with no further investment on headcount required.

The HIT facility has allowed Sancus to further complement its existing co-funder base particularly in funding larger loan opportunities and has supported the loan book growth we have seen in 2018 and expect this to increase into 2019.

Over the last 2 years £1.1m of cost savings have been made in Sancus UK, however as announced in February 2019 a decision has been made to close the supply chain finance ("SCF") offering and focus on asset backed lending and education finance.

BMS has also seen changes in the year with the sale of the Irish mandate and loan assets. This can be seen in the reduction of the revenue in comparison to the prior year. BMS still holds the advisory mandate for the UK Sarl for which it receives advisory fees and return on capital deployed in the UK fund, although changes in key personnel has led to restrictions on further loan deployments.

Asset Backed Lending

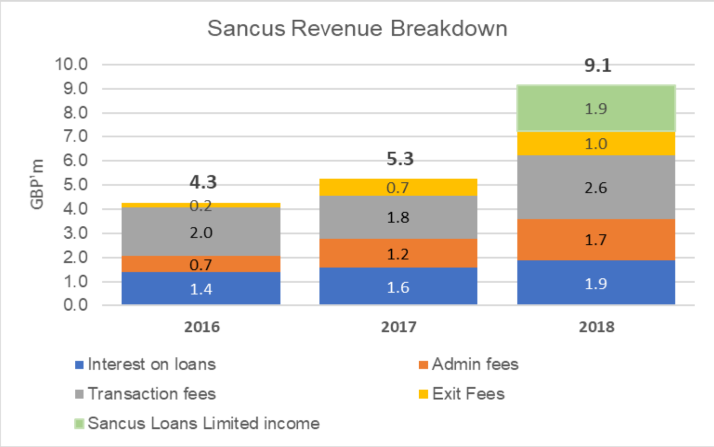
Sancus

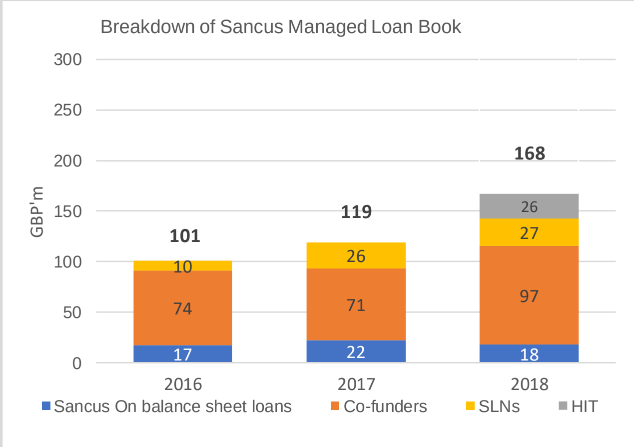
www.sancus.com

Sancus has loaned in total £579m since it became fully operational in January 2014, including the Isle of Man.

On average, the profile of the loan book is as follows:

- Loans size is £2.5m;
- duration is 19 months;
- interest rates charged are 10.8%, and
- loan to Values (LTV) are 55%.





Tables 5 and 6 show the performance achieved by Sancus Jersey, Sancus Gibraltar and Sancus Guernsey. Sancus Ireland did not carry out any lending in 2018 but will be included going forward, along with Sancus UK. The results of Sancus IOM have not been included due to the Group only holding 29% and therefore they are not part of the consolidated results.

The total loan book has increased by an impressive 41% from £119m at the end of December 2017 to £168m at the end of December 2018, with HIT contributing 22% to this increase. Co-funder participation increased by 38% from last year.

Transaction fees have increased by 47% during 2018 as a result of the increase in loan origination. Exit fees increased 42% in the year as these are being built into most of the deals now done.

Interest income on loans was up 20% from £1.6m in 2017 to £1.9m in 2018 even though we saw the Sancus on balance sheet loan book decrease by 14%. This is due to the average interest rates being marginally up on last year.

Sancus Loan Note Programme

The Sancus Loan Notes provides Sancus BMS with another pool of funders who wish to be part of a group of assets rather than 1 specific loan. These are managed by Amberton Asset Management which is a joint venture with Somerston Group and is regulated by The Protection of Investors (Bailiwick of Guernsey) Law, 1987 ("POI") License. Since the programme was launched in November 2016, 5 have been launched to date with Sancus participating directly with its own capital or providing a first loss position. The table below shows the history of the loan notes to date.

There are 2 live loan notes in March 2019 following the repayment of SLN2 on 7 February 2019. The Group currently therefore has total guarantees of £3.2m, being 20% of SLN4 (£1.5m) and 10% of SLN5 of (£1.7m).

(Table 7)

Loan Note	Date Launched	Amount launched with £'000	Term (years)	Maturity/ redemption date	Coupon %	Maximum Raise £'000	Sancus Guarantee £'000	Total Loan Note at 31 December 2018 £'000	Sancus BMS Capital at 31 Dec 208 £'000	Loan Note balance as at today £'000
SLN 1 (repaid)	7/11/2016	17,550	2.0	28/2/2018	8%	10,050	£7,500	-	7,500	-
SLN 2 (repaid)	12/4/2017	14,450	2.0	7/2/2019	7%	12,000	£3,000	14,759	3,000	-
SLN 3 (repaid)	4/10/2017	3,700	1.1	8/11/2018	6%	15,000	20% first loss	-	-	-
SLN 4	9/7/2018	1,950	1.25	30/9/2019	6%	15,000	20% first loss	7,457	-	7,469
SLN 5	8/11/2018	6,450	3.0	8/11/2021	7%	50,000	10% first loss	8,017	-	16,652

SME Finance

BMS Finance
www.bms-finance.com

As announced during the year the Irish advisory side of the business was sold to Beach Point Capital, so BMS Finance now comprises one investment company providing UK loans which has long term committed capital from investors including circa 49% being subscribed by the government investment vehicle, namely British Business Investments (formerly British Business Bank Investments). Following the departure of certain key individuals in 2018, the fund is in suspension and the loan book has amortised (total capital committed to the UK focused investment company is now at £40m). GLI holds 25% of total capital commitments.

BMS received revenue of £2.9m in the year from their advisory fee to the UK fund and from its return on capital invested into the UK fund. 2017 revenue was £3.6m with the reduction as explained above from a reduction in advisory fees from the sale of the Irish Sarl and sale of loan assets. Operating expenses have decreased in the year in line with a reduction in headcount relating to the Irish team from £1.5m to £1.3m.

Sancus Finance
www.sancus.com

Sancus Finance ceased its supply chain finance offering in February 2019 but continues to offer education finance (enabling further education and higher education institutions to manage their cash flows or support investment plans) through a transactional online platform. The business earns arrangement fees and a margin reflecting the amounts paid by clients in excess of that which is due to funders.

FinTech Ventures

Financial Review

FinTech Ventures Portfolio Asset Split (Table 8)

£'000	31 December 2018	31 December 2017
Equity	11,608	24,554
Preference Shares	-	1,916
Loans	2,196	3,128
Total FinTech Ventures portfolio	**13,804**	**29,598**
Total Number of Platforms	**11**	**11**
Number of Platforms valued at zero	**6**	**2**

The total fair value at 31 December 2018 of £13.8m is made up of investments in the following instruments: £11.6m of Equity, and £2.2m of Loans mainly in the form of convertible loan notes where we retain the potential upside from being able to convert on favourable terms should the platform deliver a successful opportunity for us to exit. Given the difficult market conditions, some tough decisions have been made to write down the valuations of several of the platforms in the portfolio, as highlighted by 6 of them now being valued at zero.

At the time, these minority stakes in the various platforms were acquired by the Group back in 2014 and 2015, it was expected that they would achieve profitability far quicker than they have. In practice, the plethora of FinTech start-ups has created a very competitive market and scale has been harder to achieve. As a portfolio of early stage businesses, it is perhaps inevitable that some platforms have either failed or have underperformed to the point where it has been appropriate to take write-downs. However, several of the platforms continue to perform well with good year on year growth and we are confident of upside potential being delivered in due course. Whilst investment risk related to this portfolio will remain an ongoing feature we hope that several of the platforms are successful in securing further growth capital over the next 12 months.

The valuation methodology employed by the Group is unchanged and remains compliant with IFRS 13, based on a fair value approach and taking into account the International Private Equity and Venture Capital Valuation Guidelines ("IPEV"), which provides guidance on fair value valuation practices. We continue to reference recent transaction prices to complement our internally managed discounted cash flow models.

Platform Exposure

Table 9 Platform	Platform exposure £'m	NAV per share (pence)
1	**6.7**	2.2
2	**2.6**	0.8
3	**1.9**	0.6
4	**1.4**	0.5
5	**1.2**	0.4
Total Fair Value of Portfolio	**13.8**	**4.5**
Loans through platforms and accrued interest	**1.8**	0.6
Total Net Assets of FinTech Ventures	**15.6**	**5.1**

For commercial reasons we do not disclose the carrying value of each platform, but to provide some transparency regarding the portfolio exposure the above table splits out the platform exposure by amount for the largest 5 holdings and NAV per share.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	31 December 2018 £'000	31 December 2017 £'000
Revenue	5	13,221	11,634
Cost of sales	6	(3,983)	(2,448)
Gross profit		**9,238**	**9,186**
Operating expenses	7	(8,493)	(9,085)
Operating profit before credit losses		**745**	**101**
Changes in expected credit losses	20	(1,247)	-
Incurred losses on financial assets	20	(1,763)	-
Operating (loss)/profit		**(2,265)**	**101**
SSIF loss on disposal		-	(953)
FinTech Ventures fair value movement	20	(19,634)	(11,919)
FinTech Ventures foreign exchange gain/(loss)	20	928	(1,540)
Other net gains/(losses)		189	(853)
Impairment of goodwill	11	(2,139)	-
Loss for the year before tax		(22,921)	(15,164)
Income tax expense	16	(243)	(20)
Loss for the year after tax		**(23,164)**	**(15,184)**
Other comprehensive income			
Foreign exchange gain arising on consolidation		1	-
Total comprehensive loss for the year		**(23,163)**	**(15,184)**
Loss for the year after tax attributable to:			
Equity holders of the Company		(23,164)	(15,164)
Non-controlling interest		-	(20)
		(23,164)	**(15,184)**
Total comprehensive loss attributable to:			
Equity holders of the Company		(23,163)	(15,164)
Non-controlling interest		-	(20)
		(23,163)	**(15,184)**
Basic and Diluted Loss per Ordinary Share	9	(7.57)p	(5.01)p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	31 December 2018 £'000	31 December 2017 £'000
Non-current assets			
Property and equipment		31	63
Goodwill	11	22,894	25,033
Other intangible assets	12	571	530
Sancus BMS loans and loan equivalents	20	14,916	27,238
FinTech Ventures investments	20	13,804	29,598
Other investments		327	542
Investments in joint ventures and associates	8	2,855	2,266
Total Non-current assets		55,398	85,270
Current assets			
Loans through platforms	20	883	908
Other assets	10	4,404	-
Sancus BMS loans and loan equivalents	20	37,401	19,088
Trade and other receivables	13	5,656	4,170
Cash and cash equivalents		5,863	3,016
Total Current assets		54,207	27,182
Total assets		**109,605**	**112,452**
EQUITY			
Share premium	14	112,557	112,557
Treasury shares	14	(1,162)	(1,162)
Retained earnings		(61,168)	(36,588)
Capital and reserves attributable to equity holders of the Group		50,227	74,807
Non-controlling interest		-	(4)
Total equity		50,227	74,803
LIABILITIES			
Non-current liabilities	15	32,684	34,714
Current liabilities	15	26,694	2,935
Total liabilities		59,378	37,649
Total equity and liabilities		**109,605**	**112,452**

The financial statements were approved by the Board of Directors on 22 March 2019 and were signed on its behalf by:

Director: Patrick Firth

Director: John Whittle

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share Premium	Treasury Shares	Distributable Reserve	Foreign Exchange Reserve	Retained Earnings/ (Losses)	Capital and reserves attributable to equity holders of the Company	Non-controlling Interest	Total Equity
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 December 2017		112,557	(1,162)	-	-	(36,588)	74,807	(4)	74,803
Adjustment in respect of IFRS 9	21	-	-	-	-	(1,350)	(1,350)	-	(1,350)
Restated at 1 January 2018		112,557	(1,162)	-	-	(37,938)	73,457	(4)	73,453
Acquisition of non-controlling interest in Sancus Finance		-	-	-	-	(67)	(67)	4	(63)
Transactions with owners		-	-	-	-	(67)	(67)	4	(63)
Total comprehensive loss for the year		-	-	-	1	(23,164)	(23,163)	-	(23,163)
Balance at 31 December 2018		**112,557**	**(1,162)**	**-**	**1**	**(61,169)**	**50,227**	**-**	**50,227**
Balance at 31 December 2016		111,942	(1,734)	34,803	-	(54,268)	90,743	125	90,868
Transferred to management	14	-	572	-	-	-	572	-	572
Transfer of distributable reserves to retained earnings		-	-	(34,803)	-	34,803	-	-	-
Acquisition of non-controlling interest in Sancus Finance		-	-	-	-	(241)	(241)	(109)	(350)
Dividends paid		615	-	-	-	(1,718)	(1,103)	-	(1,103)
Transactions with owners		615	572	(34,803)	-	32,844	(772)	(109)	(881)
Total comprehensive loss for the year		-	-	-	-	(15,164)	(15,164)	(20)	(15,184)
Balance at 31 December 2017		112,557	(1,162)	-	-	(36,588)	74,807	(4)	74,803

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	31 December 2018 £'000	31 December 2017 £'000
Cash inflow/(outflow) from operations, excluding loan movements	17	73	(2,517)
Increase on Sancus BMS loans		(7,714)	(5,384)
Decrease on loans through platforms		22	2,726
Increase on Sancus Loans Limited loans		(25,639)	-
Decrease in loans to UK and Irish SARLs		11,483	-
Divestment/(investment) in Sancus Loan Notes		8,062	(3,000)
Net Cash flows used in operating activities		(13,713)	(8,175)
Investing activities			
Acquisition of non-controlling interest and connected entities		(413)	(2,349)
Purchase of investments – FinTech Ventures		(2,995)	(6,949)
Sale of investments/repayment of loans - FinTech Ventures		376	414
Investment in Sancus (IOM) preference shares		(950)	-
Other cost of investment		-	(180)
Sale of SSIF investment		-	22,675
Property, equipment and other intangibles acquired		(275)	(298)
Net cash (outflow)/inflow from investing activities		(4,257)	13,313
Financing activities			
Repayment of syndicated loan		-	(11,920)
Sale of Corporate Bond		-	1,500
Proceeds from the HIT facility	17	22,591	-
Purchase of ZDPs	17	(1,774)	-
Dividends paid		-	(1,318)
Net cash generated/(used) in financing activities		20,817	(11,738)
Net increase/(decrease) in cash and cash equivalents		2,847	(6,600)
Cash and cash equivalents at beginning of year		3,016	9,616
Cash and cash equivalents at end of year		5,863	3,016

The investment in Sancus Loan Notes is considered an operating activity since it generates operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

GLI Finance Limited (the "Company"), and 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 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 Team is responsible for the management of the Company.

As at 31 December 2018, the Group comprises the Company and its subsidiaries (please refer to Note 18 for full details of the Company's subsidiaries).

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 European Union ("EU"), 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 investment at fair value through profit or loss. With the exception of changes in accounting policies detailed in Note 21 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 2017.

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.

The assessment has been supported by subjecting the Group's financial forecasts for at least the next 12 months to severe but reasonable scenarios and reviewing the effectiveness of any mitigating actions. This assessment mainly focused on the maturity of the ZDPs on 5 December 2019. At maturity it is the intention of the Board that the ZDPs will be repaid by using cash reserves of the Group. The Board believes that there will be sufficient cash resources available and has come to this conclusion by analysing key assumptions. These key assumptions include that Sancus BMS generates positive cash flows in 2019 and the collection of loan principal amounts are received as they mature and these repayments are not fully redeployed into new loans.

There are sensitivities around these assumptions which have been stress tested and include timings and risks the loans may not repay on time. Should this transpire, then the Group can also call upon other assets to raise cash, including the sale of shares held in treasury, the sale of the FinTech Ventures portfolio and other assets, although these are not the preferred options of the Board, we note that this is available if required. In the event that there is a short fall of cash reserves to repay the ZDPs on the 5 December 2019, it is the Group's intention to obtain a short term loan at similar interest rates paid in the past.

All of these factors and assumptions combined 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.

(b) Basis of consolidation

The financial statements comprise the results of GLI Finance Limited and its subsidiaries for the year ended 31 December 2018. 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.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests measured at their proportionate share of net assets acquired.

(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. The management fees, administration fees, finance costs and all other expenses (excluding share issue expenses which were offset against share premium) are charged through the Consolidated Statement of Comprehensive Income.

(f) Financial assets and liabilities

Recognition and initial measurement

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. Financial liabilities are measured at amortised cost. Realised gains and losses arising on the derecognition of financial assets and liabilities are recognised in the period in which they arise.

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 20.

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.

Loans and receivables

Non-derivative financial assets such as loans, loan equivalents, trade and other receivables with fixed or determinable payments and not quoted in an active market, are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently carried at amortised cost using the effective interest rate method, adjusted for any credit loss allowance. The effect of discounting on these trade and other receivables is not considered to be material.

The Group has loans and receivables with embedded prepayment options. Given the low probability of exercise and undetermined exercise dates, the value attributed to these embedded derivatives is considered to be £ nil.

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. Financial liabilities, including borrowings and trade payables, are recorded at amortised cost. Interest cost of such liabilities is allocated over the appropriate period.

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.

(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 currency 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 their primary currency in which they operate.

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 to the foreign exchange reserve. The rates of exchange as at the year-end are as follows:

31 December 2018	31 December 2017
£1: USD1.2743	£1: USD1.3508
£1: EUR1.1094	£1: EUR1.1258

(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.

(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 Company 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.

(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 risks 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 15) 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 15, 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 software on a straight-line basis over its expected useful economic life as follows:

Furniture and fittings	3 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 when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is 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 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. 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.

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.

The Directors consider that the economic measurement of fee revenues that relate specifically to the completion of a loan (exit fees and warrants) cannot reliably be measured over the life of a loan and such fees are duly recognised when earned and they become unconditional. This is due to uncertainties and risk factors including credit risk, timing risk, liquidity risk, quantum uncertainty and conditions precedent. The Directors consider that this treatment best reflects the commercial operations of the Group as an administrator of loan arrangements.

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.

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

(p) Share based payments

The Company provides a discretionary bonus, part of which is 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.

(r) Trade and other receivables

Receivables are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or origination. They are subsequently measured at amortised cost.

(s) Trade and other payables

Payables are recognised initially at fair value and subsequently stated at amortised cost using the effective interest rate method.

(t) 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.

(u) 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.

(v) Inventories

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.

(w) Adoption of new and revised Standards

Adoption of new Standards

IFRS 9 ‘Financial Instruments’

IFRS 9 is effective for reporting periods beginning on or after 1 January 2018 and has therefore been adopted for the first time in this set of Financial Statements. Details about accounting policy changes brought about by the adoption of this standard and their effects can be found at Note 21.

IFRS 15 ‘Revenue from Contracts with Customers’

IFRS 15 is effective for reporting periods beginning on or after 1 January 2018 and has therefore been adopted for the first time in this set of Financial Statements. Details about accounting policy changes brought about by the adoption of this standard and their effects can be found at Note 21.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018. 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 IFRSs that are mandatorily effective for the current year (continued)

- Amendments to IFRS 1 *Amendments resulting from Annual Improvements 2014-2016 Cycle*
- Amendments to IFRS 2 *Amendments to clarify the classification and measurement of share-based payments transactions*
- Amendments to IFRS 4 *Amendments regarding the interactions of IFRS 4 and IFRS 9*
- Amendments to IFRS 7 *Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9*
- Amendments to IAS 40 *Amendments to clarify transfer of property to, or from, investment property*

IFRSs that are in issue but not yet effective

At the date of approval of these Consolidated Financial Statements, the following standard, which has not been applied in these Consolidated Financial Statements was in issue but not yet effective:

- *IFRS 16 ‘Leases’*

  IFRS 16 requires lessees to recognise assets and liabilities for all leases greater than 12 months in length unless the underlying asset has a low value. This standard replaces IAS 17, the current lease accounting standard, and is effective for reporting periods beginning on or after 1 January 2019.

  Whilst we have not adopted this standard in this set of financial statements we have outlined below how we plan on adopting this standard in the next financial year and the impact that it may have on the financial statements.

  All leases in the group are currently classed as operating in nature with a rental charge being posted to profit and loss in accordance with the requirements of IAS 17. No asset or liability is recognised on the balance sheet. IFRS 16 will now require us to recognise a “Right-of-use” asset for all leases where the length of lease is greater than 12 months and the underlying asset is greater in value than c.£3,000 (considered to be a “low value asset”). A corresponding liability will be recognised representing the discounted future lease payments until the end of the lease. The liability will determine the value of the “Right-of-use” asset. The group has decided to use the incremental borrowing rate (IBR) as a proxy for the discount rate implicit in the lease. The IBR is defined as the rate that the company would have to pay if it went out in to the market and brought a similar asset under a finance arrangement. The IBR is therefore company, asset and length of lease specific. Given it is not possible to go into the market and obtain an IBR for each right of use asset the IBR will be a critical accounting estimate.

It is envisaged that an IBR somewhere in the range 5% to 10% will be used. This has been arrived at by reviewing current commercial property rates obtainable in the market adjusted for the particular circumstances of the company which holds the leases, and then comparing to funding that the Group has raised historically. It should be noted that the rate used (within this range) does not alter the indicative effects on the financials, which are detailed below, by material amounts.

IFRS 16 Indicative effects on the Financials

Using an IBR of between 5% to 10% it is envisaged that a “Right-of-use” asset of c.£890,000 will be recognised on the balance sheet on 1 January 2019 in respect of leases held at 31 December 2018, together with a corresponding liability for future payments to the end of these leases. It is estimated that in the first year of adoption current rental charges of c.£110,000 per annum will be replaced by a depreciation charge of c.£190,000 and an interest charge of c.£40,000 offset by rental income of c.£115,000, with the overall Statement of Comprehensive Income effect being relatively small. Note that there will be a proportion of rental charges remaining as we rent a number of offices on a month by month basis where there is no long-term lease in place and so the Group expects to apply the transitional rules for such leases.

Other IFRSs and amendments that are in issue but not yet effective which are not envisaged to have a material impact on the financial statements are*:*

- *IFRS 3 Amendments resulting from annual improvements 2015-2017 Cycle*
- *IFRS 3 Amendments to clarify the definition of a business*
- *IFRS 9 Amendments regarding prepayment features with negative compensation and modifications of financial liabilities*
- *IFRS 11 Amendments resulting from annual improvements 2015-2017 Cycle*
- *IFRS 17 Insurance Contracts*
- *IAS 1 Amendments regarding the definition of material*
- *IAS 8 Amendments regarding the definition of material*
- *IAS 12 Amendments resulting from annual improvements 2015-2017 Cycle*
- *IAS 19 Amendments regarding plan amendments, curtailments or settlements*
- *IAS 23 Amendments resulting from annual improvements 2015-2017 Cycle*
  IAS 28 Amendments regarding long-term interests in associates and joint ventures

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 IAS 39 - Financial Instruments.

The Directors consider that the Group is of a nature similar to a venture capital organisation on the basis that FinTech Ventures’ investments form part of a portfolio which is monitored and managed without distinguishing between investments that qualify as associate undertakings. 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 20 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.

Going Concern

Given the uncertainty over the timing and quantum of cash flows needed to repay the ZDPs Going Concern is considered to be a critical judgement in applying the Group's accounting policies. The Directors are of the opinion that it is appropriate to prepare these financial statements on a going concern basis. Should this not be the case the accounts would need to be prepared on a basis other than a going concern with all assets restated to their estimated realisable value where this differs from carrying value. For further details on Going concern see Note 2(a).

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 2 Limited, Sancus Loan Notes 4 Limited and Sancus Loan Notes 5 Limited 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 20.

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 11, the Directors will review the carrying value of goodwill and carry out an impairment review annually to assess whether goodwill is impaired. In doing so, the Directors have assessed the value in use of each cash generating unit through an internal discounted cash flow analysis, details of which are set out in Note 11. 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 11. Refer Notes 2(h) and (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 20. 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%.

Fair Value of the FinTech Ventures' investments

The Group invests in financial instruments which are not quoted in active markets and may receive such financial instruments as distributions on certain investments. Fair values are determined by using valuation techniques as detailed in Note 20. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Fair Value of the FinTech Ventures' investments (continued)

- 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 Team with a view to establishing the probable realisation value for such shares as at close of business on the relevant valuation day.

Given the early stage nature of the investee companies, the valuations are sensitive to the cash flows assumed and discount rates applied and management have made a number of material judgements in concluding on the valuations. See Note 20 for further details. The methods and valuation techniques used for the purposes of measuring fair value are unchanged compared to the previous reporting year, although transactional data has become available in some cases, reducing the need for reliance on the discounted cash flow method. All of the FinTech Ventures investments are categorised as Level 3.

4. 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 Executive Team is responsible for allocating resources and assessing performance of the Group, as well as making strategic investment decisions, subject to the oversight of the Board of Directors. The Executive Team is responsible for the entire Group and considers it to have two operating segments in addition to Group Treasury. The segments are as follows:

Sancus BMS

- Platforms with an established business model
- Amberton - fundraising for Sancus BMS
- Investments in the BMS UK and Irish loan funds (Irish investment disposed 14 September 2018)
- SSIF (sold in March 2017, however is included in prior year comparatives)

FinTech Ventures

- Eleven platform investments

Group Treasury

- Group Treasury - Primarily includes cash balances and related expenses to manage the Group's listed holding company

The accounting policies of each segment are the same as the accounting policies of the Group, therefore no differences arise between the segment report and the Group statements.

£'000	Sancus BMS	FinTech Ventures	Group Treasury	31 December 2018	Sancus BMS	FinTech Ventures	Group Treasury	31 December 2017
Revenue	**13,261**	**(40)**	**-**	**13,221**	**10,341**	**1,293**	**-**	**11,634**
Cost of sales	(3,983)	-	-	(3,983)	(2,448)	-	-	(2,448)
Gross profit	**9,278**	**(40)**	**-**	**9,238**	**7,893**	**1,293**	**-**	**9,186**
Operating expenses	(6,449)	(677)	(1,367)	(8,493)	(6,340)	(1,673)	(1,072)	(9,085)
Operating profit/(loss) before credit losses	**2,829**	**(717)**	**(1,367)**	**745**	**1,553**	**(380)**	**(1,072)**	**101**
Changes in expected credit losses	(1,247)	-	-	(1,247)	-	-	-	-
Incurred losses on financial assets	(1,763)	-	-	(1,763)	-	-	-	-
Operating (loss)/profit	**(181)**	**(717)**	**(1,367)**	**(2,265)**	**1,553**	**(380)**	**(1,072)**	**101**

SSIF loss on disposal	-	-	-	-	-	-	(953)	(953)
FinTech Ventures fair value movement	-	(19,634)	-	(19,634)	-	(11,919)	-	(11,919)
FinTech Ventures foreign exchange	-	928	-	928	-	(1,540)	-	(1,540)
Other net gains/(losses)	(121)	310	-	189	(400)	(453)	-	(853)
Impairment of goodwill	(2,139)	-	-	(2,139)	-	-	-	-
(Loss)/profit for the year before tax	**(2,441)**	**(19,113)**	**(1,367)**	**(22,921)**	**1,153**	**(14,292)**	**(2,025)**	**(15,164)**
Income tax expense	(243)	-	-	(243)	(20)	-	-	(20)
(Loss)/profit for the year after tax	**(2,684)**	**(19,113)**	**(1,367)**	**(23,164)**	**1,133**	**(14,292)**	**(2,025)**	**(15,184)**
Foreign exchange on consolidation	1	-	-	1	-	-	-	-
Total comprehensive (loss)/profit for the year	**(2,683)**	**(19,113)**	**(1,367)**	**(23,163)**	**1,133**	**(14,292)**	**(2,025)**	**(15,184)**
(Loss)/profit for the year after tax attributable to:								
Equity holders of the Company	(2,684)	(19,113)	(1,367)	(23,164)	1,153	(14,292)	(2,025)	(15,164)
Non-controlling interest	-	-	-	-	(20)	-	-	(20)
	(2,684)	**(19,113)**	**(1,367)**	**(23,164)**	**1,133**	**(14,292)**	**(2,025)**	**(15,184)**
Total comprehensive (loss)/profit attributable to:								
Equity holders of the Company	(2,683)	(19,113)	(1,367)	(23,163)	1,153	(14,292)	(2,025)	(15,164)
Non-controlling interest	-	-	-	-	(20)	-	-	(20)
	(2,683)	**(19,113)**	**(1,367)**	**(23,163)**	**1,133**	**(14,292)**	**(2,025)**	**(15,184)**

£'000	**Sancus BMS**	**FinTech Ventures**	**Group Treasury**	**31 December 2018**	**Sancus BMS**	**FinTech Ventures**	**Group Treasury**	**31 December 2017**
ASSETS								
Non-current assets								
Property and equipment	31	-	-	31	60	-	3	63
Goodwill	22,894	-	-	22,894	25,033	-	-	25,033
Other intangible assets	571	-	-	571	530	-	-	530
Sancus BMS loans	11,316	-	-	11,316	24,238	-	-	24,238
Sancus Loans Limited loans	3,600	-	-	3,600	-	-	-	-
Investment in Sancus Loan Notes	-	-	-	-	3,000	-	-	3,000
Total Sancus BMS loans and loan equivalents	14,916	-	-	14,916	27,238	-	-	27,238
FinTech Ventures investments	-	13,804	-	13,804	-	29,598	-	29,598
Other investments	327	-	-	327	542	-	-	542
Joint ventures and associates	2,855	-	-	2,855	2,266	-	-	2,266
Total Non-current assets	41,594	13,804	-	55,398	55,669	29,598	3	85,270
Current assets								
Loans through platforms	55	828	-	883	69	839	-	908
Other assets	4,404	-	-	4,404	-	-	-	-
Sancus BMS Loans	10,975	-	-	10,975	8,560	-	-	8,560
Sancus Loans Limited loans	22,039			22,039	-	-	-	-
Investment in Sancus Loan Notes	3,311	-	-	3,311	7,907	-	-	7,907
Loan equivalents	1,076	-	-	1,076	2,621	-	-	2,621
Total Sancus BMS loans and loan equivalents	37,401	-	-	37,401	19,088	-	-	19,088
Trade and other receivables	4,678	972	6	5,656	2,796	616	758	4,170
Cash and cash equivalents	3,856	1	2,006	5,863	926	-	2,090	3,016
Total Current assets	50,394	1,801	2,012	54,207	22,879	1,455	2,848	27,182
Total assets	**91,988**	**15,605**	**2,012**	**109,605**	**78,548**	**31,053**	**2,851**	**112,452**
LIABILITIES								

Non-current liabilities								
ZDP shares	-	-	-	-	24,714	-	-	24,714
Corporate bond	10,000	-	-	10,000	10,000	-	-	10,000
HIT facility	22,684	-		22,684	-	-	-	-
	32,684	-	-	32,684	34,714	-	-	34,714
Current liabilities								
Trade and other payables	1,723	7	905	2,635	2,324	2	609	2,935
ZDP shares	24,059	-	-	24,059	-	-	-	-
	25,782	7	905	26,694	2,324	2	609	2,935
Total liabilities	**58,466**	**7**	**905**	**59,378**	**37,038**	**2**	**609**	**37,649**
Net assets	**33,522**	**15,598**	**1,107**	**50,227**	**41,510**	**31,051**	**2,242**	**74,803**

Sancus BMS is treated as being funded by the debt facilities whilst FinTech Ventures is treated as being funded by equity. This allocation best matches the risk profile of each business unit with its capital structure, as well as recognising that interest costs are effectively serviced by interest and fee income from Sancus BMS.

5. REVENUE

	31 December 2018	31 December 2017
	£'000	**£'000**
Co-Funder fees	1,716	1,220
Earn out (exit) fees	1,159	1,062
Advisory fees	1,418	1,287
Transaction fees	3,872	2,782
Total revenue from contracts with customers	**8,165**	**6,351**
Interest on Loans	2,710	4,573
HIT Interest income	1,905	-
SMEF dividends	-	303
Sundry income	441	407
Total Revenue	**13,221**	**11,634**

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

	31 December 2018	31 December 2017
	£'000	**£'000**
Interest costs	1,834	2,178
HIT interest costs	1,597	-
Other costs of sale	552	270
Total costs of sale	**3,983**	**2,448**

7. OPERATING EXPENSES

	31 December 2018	30 December 2017
Other expenses:	**£'000**	**£'000**
Audit fees	228	122
Amortisation and depreciation	265	322
Corporate Insurance	61	90

Employment costs	5,783	5,781
Independent valuation fees	5	64
Investor relations expenses	60	96
Marketing expenses	91	169
NOMAD fees	93	96
Other office and administration costs	1,047	1,089
Legal & Professional	452	635
Administration & secretarial	135	233
Pension costs	233	175
Registrar fees	26	33
Sundry	14	180
	8,493	**9,085**

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2018 £'000	31 December 2017 £'000
At beginning of year	2,266	528
Additions	350	2,192
Share of profit of associate	479	3
Share of loss in joint venture	(240)	(457)
At end of year	2,855	2,266

The investment in joint venture relates to a 50% share in Amberton Asset Management Limited.

Details of material associates

	Principal Activity	Place of Incorporation	Proportion of ownership interest/voting rights held by the group 31 December 2018	31 December 2017
Sancus (Isle of Man) Holdings Limited	Holding Company for Sancus (IOM) Limited	Guernsey	29.3%	29.3%

The above associate is accounted for using the equity method in these consolidated financial statements as set out in the Group's accounting policies in Note 2. This investment will allow the Group to benefit from the growth of the Isle of Man business as it continues to execute its strategy.

Summarised financial information in respect of Sancus (Isle of Man) Holdings is set out below. The summarised financial information represents amounts in associates' financial statements prepared in accordance with IFRSs.

	31 December 2018 £'000	31 December 2017 £'000
Non-current assets	2	-
Current assets	13,891	11,935
Current liabilities	(739)	(388)
Non-current liabilities	(6,885)	(6,885)
Equity attributable to owners of the company	6,269	4,662
Revenue	597	630
Profit or loss from continuing operations	158	195

Reconciliation of the above summarised financial information to the carrying amount of the interest in Sancus (Isle of Man) Holdings Limited recognised in the consolidated financial statements:

	31 December 2018 £'000	31 December 2017 £'000
Net assets of associate	6,269	4,662
Proportion of the Group's ownership interest in the associate	1,837	1,366
Goodwill arising on acquisition	763	754
Carrying amount of the Group's interest in the associate	2,600	2,120

9. 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 £23,164,526 (31 December 2017: loss of £15,164,402) by the weighted average number of Ordinary Shares (excluding treasury shares) outstanding during the period of 305,911,597 (31 December 2017: 302,673,708). There was no dilutive effect for potential Ordinary Shares during the current or prior periods.

Note 14 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. Share options as noted in Note 22 are also out of the money and have therefore not been considered to have a dilutive effect on the calculation of Loss per Ordinary Share.

	31 December 2018	31 December 2017
Number of shares	312,065,699	312,065,699
Weighted average no. of shares in issue throughout the year	305,911,597	302,673,708
Loss per share	(7.57)p	(5.01)p

10. OTHER ASSETS

Other assets comprise of a number of repossessed properties and developments which were previously held as security against certain loans which have defaulted in the period. These assets are held at the lower of cost and net realisable.

	31 December 2018 £'000	31 December 2017 £'000
Properties held for sale	1,377	-
Development properties	3,027	-
Total Other Assets	4,404	-

Of the development properties it is possible that £1.3m of the £3.0m will not be sold in the next 12 months as extensive development is required.

11. GOODWILL

	31 December 2018 £'000	31 December 2017 £'000
Brought forward	25,033	25,033
Impairment of Sancus Finance goodwill	(2,139)	-
Carried forward	22,894	25,033

Goodwill comprises:		
Sancus Jersey	14,255	14,255
Sancus Gibraltar	8,639	8,639
Sancus Finance	-	2,139
	22,894	25,033

Impairment tests

The carrying amount of the goodwill arising on the acquisition of certain subsidiaries is assessed by the Board for impairment on an annual basis or more frequently if there has been an event which suggests that there may have been an impairment.

The value in use of Sancus Jersey was based on an internal Discounted Cash Flow ("DCF") valuation analysis using cash flow forecasts for the years 2019 to 2023. The starting point for the cash flows was the 2019 budget which was produced by Sancus Jersey management and ratified by its board. Management's revenue forecast applied a compound annual growth rate (CAGR) to revenue of 8%. A cost of equity discount rate of 13.5% (2017:13.5%), which is reflective of Sancus's cost of equity, was employed in the valuation model. The resultant valuation indicated that no impairment of goodwill was required, with significant headroom. The value in use of Sancus Gibraltar was also determined on a similar DCF basis starting from the 2019 budget, using a CAGR of 7% and a cost of equity discount rate of 14.0% (2017:14.0%). The resultant valuation indicated that no impairment of goodwill was required, again with significant headroom.

At 30 June 2018 the recoverable amount of Sancus Finance was assessed by the Board using DCF methodology as described above. As a result of this assessment it was deemed appropriate to write down the Sancus Finance goodwill and subsequent to year-end the Group has decided to cease its supply chain finance operations (Note 28), which supports the impairment loss conclusions.

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.

Sensitivity Applied	**Reduction in headroom implied by sensitivity**		
	Sancus Jersey £'000	**Sancus Gibraltar £'000**	**Total £'000**
10% decrease in revenue per annum	5,304	3,361	8,665
3% increase in cost of Equity discount rate	6,386	4,458	10,844

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.

12. INTANGIBLE ASSETS

Cost	**£'000**
At 1 January 2018	1,312
Additions from internal development	264
At 31 December 2018	**1,576**

Amortisation	**£'000**
At 1 January 2018	782
Charge for the year	223
At 31 December 2018	**1,005**
Net book value 31 December 2018	**571**
Net book value 1 January 2018	530

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 Other expenses.

13. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
	£'000	£'000
Dividend income receivable	68	68
Loan fees and similar receivable	1,359	930
Loan interest receivable	3,646	1,973
Preference share dividends receivable	-	607
Receivable from associated companies	51	31
Other trade receivables and prepaid expenses	532	561
	5,656	4,170

14. SHARE CAPITAL, SHARE PREMIUM & DISTRIBUTABLE RESERVE

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

No additional Ordinary shares were issued during the year (2017: 2,767,586 shares for £615,239 relating to the 2016 fourth quarter scrip dividend).

Share Capital	31 December 2018 Shares in issue	31 December 2017 Shares in issue
Ordinary Shares – nil par value		
Balance at start of year	312,065,699	309,298,113
Issued during the year	-	2,767,586
Balance at end of the year	312,065,699	312,065,699

Share Premium	31 December 2018 £'000	31 December 2017 £'000
Ordinary Shares – nil par value		
Balance at start of year	112,557	111,942
Issued during the year	-	615
Balance at end of the year	112,557	112,557

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

As at 31 December 2018 and 31 December 2017 a total of 6,154,102 Ordinary Shares, with an aggregate value of £1,161,975 were held by a Subsidiary, Sancus BMS Group Limited.

	31 December 2018	31 December 2017
	£'000	£'000
Balance at start of the year	1,162	1,734
GLI shares transferred to key members of management	-	(572)
Balance at end of year	1,162	1,162

Warrants in Issue

On 25 February 2016, Shareholders approved special resolutions authorising the issue of warrants to Golf Investments Limited which confer the warrant holder the right to subscribe for up to 32,000,000 new Ordinary Shares in the capital of the Company at the following subscription prices:

10,000,000 Ordinary Shares at 40 pence per Ordinary Share;
10,000,000 Ordinary Shares at 45 pence per Ordinary Share; and,
12,000,000 Ordinary Shares at 55 pence per Ordinary Share.

These warrants expire on 25 February 2020.

On 16 September 2016, Shareholders approved a special resolution authorising the issue of warrants to Golf Investments Limited which confer the warrant holder the right to subscribe for up to 10,000,000 shares at 37 pence per Ordinary Share, exercisable up to 9 August 2020.

As at 31 December 2018, the above warrants were in issue but not yet exercised. On issue of these warrants, no provision has been made for a fair value adjustment, as following the Board's assessment of the fair value it was not deemed to be materially different to the current carrying value of £Nil.

15. LIABILITIES

	31 December 2018	31 December 2017
Non-current liabilities	**£'000**	**£'000**
ZDP shares (1)	-	24,714
Corporate Bond (2)	10,000	10,000
HIT facility (3)	22,684	-
	32,684	34,714

	31 December 2018	31 December 2017
Current liabilities	**£'000**	**£'000**
ZDP shares (1)	24,059	-
Accounts payable	278	319
Accruals and other payables	1,679	1,174
Taxation	454	326
Deferred income	67	166
Payable to related party	157	950
	26,694	2,935

	31 December 2018	31 December 2017
Interest costs on debt facilities	**£'000**	**£'000**
ZDP shares (1)	1,119	1,278
Corporate Bond (2)	700	648
Syndicated Loan	-	220
HIT Facility (3)	1,597	-
	3,416	2,146

(1) ZDP shares

The ZDP Shares have a maturity date of 5 December 2019 with a final capital entitlement of £1.30696 per ZDP Share.

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.glifinance.com.

The ZDP shares bear interest at an average rate of 5.5% (31 December 2017: 5.5%).

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 also specify that two debt cover tests must be met in relation to the ZDPs.

At 31 December 2018 the Company was in compliance with these covenants as Cover Test A was 2.78 (minimum of 1.7) and Cover Test B was 3.48 (minimum of 3.25).

At 31 December 2018 senior debt borrowing capacity amounted to £20m. The HIT facility does not impact on this capacity as it is non-recourse to GLI.

During the course of 2018 the Company has been acquiring ZDPs and holding them in Treasury. At 31 December 2018 the Company held 1,544,441 shares (31 December 2017: Nil) with an aggregate value of £1,930,557 (31 December 2017: £Nil) under the 14.99% limit as approved at the 2018 AGM.

(2) Corporate Bond

On 30 June 2016 GLI Finance issued £10m corporate bonds as part of the acquisition of Sancus Gibraltar. The bond maturity date is 30 June 2021 and they bear interest at 7% (2017: 7%).

(3) HIT Facility

On 29 January 2018, GLI Finance signed a new funding facility with Honeycomb Investment Trust plc (HIT). The funding line has a term of 3 years and comprises a £45m accordion and revolving credit facility. 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 BMS Group has a £5m first loss position on the HIT facility. GLI 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 BMS Group, given its position as facility and security agent.

16. 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 2017: £1,200) is payable to the States of Guernsey in respect of this exemption.

Reconciliation of tax charge

	31 December 2018 £'000	**31 December 2017 £'000**
Accounting loss before tax	(22,921)	(15,164)
Accounting profit before tax relating to companies subject to taxation	2,463	685
UK Corporation Tax at 19% (2017: 20%)	-	(118)
Gibraltar Corporation Tax at 10% (2017: 10%)	124	138
Jersey Corporation Tax at 10% (2017: 0%)	124	-
Adjustment in respect of prior years (Gibraltar)	(5)	-
Tax expense	243	20

Certain of the Group's subsidiaries have losses available for carry forward to offset against future trading profit.

17. NOTES TO THE CASH FLOW STATEMENT

Cash generated from operations (excluding loan movements)

	31 December 2018 £'000	**31 December 2017 £'000**
Loss for the year	(23,164)	(15,184)
Adjustments for:		
Net losses on FinTech Ventures	18,661	13,459
Net loss on sale of SSIF	-	953
Other net (gains)/losses	(664)	399
ZDP finance costs – Non-cash	1,119	1,278

Changes in expected credit losses	1,247	-
Impairment of financial assets	1,565	-
Amortisation/depreciation of fixed assets	265	322
Amortisation of debt issue costs	93	-
Other non-cash	-	268
Goodwill write off	2,139	-
Changes in working capital:		
Trade and other receivables	(1,794)	(1,533)
Trade and other payables	606	(2,479)
Cash inflow/(outflow) from operations (excluding loan movements)	73	(2,517)

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 2018 £'000	Financing cash flows * £'000	Amortisation of debt issue costs Non-cash £'000	Interest Accruals Non-cash £'000	31 December 2018 £'000
ZDP Shares	24,714	(1,774)	-	1,119	24,059
Corporate Bond	10,000	-	-	-	10,000
HIT Facility	-	22,591	93	-	22,684
Total liabilities from financing activities	**34,714**	**20,817**	**93**	**1,119**	**56,743**

	1 January 2017 £'000	Financing cash flows * £'000	Amortisation of debt issue costs Non-cash £'000	Interest Accruals Non-cash £'000	31 December 2017 £'000
ZDP Shares	23,436	-	-	1,278	24,714
Corporate Bond	8,500	1,500	-	-	10,000
Syndicated Loan	11,920	(11,920)	-	-	-
Total liabilities from financing activities	**43,856**	**(10,420)**	**-**	**1,278**	**34,714**

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

Interest on the Corporate Bond and HIT Facility is accrued and paid in full within the year. Both are charged to operating cash flows in the cash flow statement.

18. CONSOLIDATED SUBSIDIARIES

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

Subsidiary entity	Date of incorporation	Country of incorporation	Nature of holding	Percentage holding
Sancus BMS Group Limited	27 December 2013	Guernsey	Directly held -Equity Shares	100%

Sancus BMS Holdings Limited	5 November 2012	Guernsey	Indirectly held - Equity Shares	100%
BMS Finance AB Limited	24 November 2006	United Kingdom	Indirectly held - Equity Shares	100%
Sancus Services Limited	21 October 2014	United Kingdom	Indirectly held - Equity Shares	100%
Sancus (Jersey) Limited	1 July 2013	Jersey	Indirectly held - Equity Shares	100%
Sancus (Guernsey) Limited	18 June 2014	Guernsey	Indirectly held - Equity Shares	100%
Sancus (Gibraltar) Limited	10 March 2015	Gibraltar	Indirectly held - Equity Shares	100%
Sancus BMS (Ireland) Limited	10 April 2017	Ireland	Indirectly held - Equity Shares	100%
Sancus Funding Limited	17 February 2011	United Kingdom	Indirectly held - Equity Shares	100%
Sancus Finance Limited	7 January 2011	United Kingdom	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%

19. FINTECH VENTURES AND OTHER INVESTMENTS

The Directors consider the following entities as associated undertakings of the Group as at 31 December 2018.

Name of Investment:	Nature of holding	Country of incorporation	Percentage holding	Measurement
FinTech Ventures:				
LiftForward Inc	Indirectly held - Equity	United States of America	18.40%	Fair Value
Finexkap	Indirectly held - Equity	France	15.54%	Fair Value
Ovamba Solutions Inc	Directly held - Equity	United States of America	20.31%	Fair Value
The Credit Junction Holdings	Indirectly held - Equity	United States of America	6.71%	Fair Value
Funding Options Limited	Indirectly held - Equity and Preference Shares	United Kingdom	22.78%	Fair Value
TradeRiver Finance Limited	Directly held - Equity and Preference Shares	United Kingdom	46.70%	Fair Value
TradeRiver USA Inc	Directly held - Equity and Preference Shares	United States of America	30.25%	Fair Value
Open Energy Group Inc	Directly held - Equity	United States of America	23.08%	Fair Value
MytripleA	Directly held - Equity	Spain	15.00%	Fair Value
TORCA (previously UK Bond Network Limited)	Directly held - Equity	United Kingdom	8.18%	Fair Value
Finpoint Limited	Directly held - Equity	United Kingdom	21.12%	Fair Value
Other Investments:				

BMS Finance (UK) Sarl	Indirectly held - Equity	Luxembourg	25.25%	Fair Value

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

20. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

Sancus BMS loans and loan equivalents	31 December 2018 £'000	31 December 2017 £'000
Non-current		
Sancus BMS loans	11,316	24,238
Investments in Sancus Loan Notes	-	3,000
Sancus Loans Limited loans	3,600	-
Total non-current Sancus BMS loans and loan equivalents	**14,916**	**27,238**
Current		
Sancus BMS loans	10,975	8,560
Investments in Sancus Loan Notes	3,311	7,907
Loan equivalents	1,076	2,621
Sancus Loans Limited loans	22,039	-
Total current Sancus BMS loans and loan equivalents	**37,401**	**19,088**
Total Sancus BMS loans and loan equivalents	**52,317**	**46,326**

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:

Assets	31 December 2018 Level 3 £'000	31 December 2017 Level 3 £'000
FinTech Ventures investments	13,804	29,598
Investments in Sancus Loan Notes	3,311	10,907
Other investments at Fair Value	3,182	2,808
Total assets at Fair Value	20,297	43,313

In relation to the Level 3 valuation methodology for the FinTech Ventures investments the Board assesses the fair value based on either the value at the last capital transaction or valuation techniques, performed internally or by an independent third-party expert. Factors considered in these valuation analyses included discounted cash flows and comparable company and comparable transaction analysis. Key unobservable inputs used in the discounted cash flows include costs of equity and illiquidity discount rates. Other factors included revenue and costs growth rates, interest margins, bad debt expense and tax rates. These are consistent with the inputs described in the 2017 Annual Report and adjusted where necessary. The Board considers all the information presented to it, including indicative bids, internal analysis, and independent valuations, in order to reach, in good faith, their value determination.

FinTech Ventures investments

31 December 2018	Equity £	Loans £	Total £
Opening fair value	26,470	3,128	29,598
New investments/loans advanced	200	2,419	2,619
Converted from accrued interest	293	-	293
Converted to Equity	2,071	(2,071)	-
Unrealised gains/(losses) recognised in profit and loss	(18,221)	(1,413)	(19,634)
Foreign exchange gain	795	133	928
Closing fair value	11,608	2,196	13,804

31 December 2017	Equity	Loans	Total
	£	£	£
Opening fair value	34,699	1,405	36,104
New investments/loans advanced	1,455	5,080	6,535
Reclassification of loan	-	418	418
Unrealised gains/(losses) recognised in profit and loss	(8,322)	(3,597)	(11,919)
Foreign exchange loss	(1,362)	(178)	(1,540)
Closing fair value	26,470	3,128	29,598

Assets at Amortised Cost

	31 December 2018	31 December 2017
	£'000	£'000
Sancus BMS loans and loan equivalents	49,006	35,419
Loans through platforms	883	908
Trade and other receivables	5,656	4,170
Cash and cash equivalents	5,863	3,016
Total assets at amortised cost	61,408	43,513

Liabilities at Amortised Cost

	31 December 2018	31 December 2017
	£'000	£'000
ZDP Shares	24,059	24,714
Corporate Bond	10,000	10,000
HIT Facility	22,684	-
Trade and other payables	2,635	2,935
Total liabilities at amortised cost	59,378	37,649

Refer to Note 15 for further information on liabilities.

Risk Management

The Group is exposed to financial risk through its investment in a range of financial instruments, ie. 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). These are described in more detail 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 14 and of its debt in Note 15.

The Group and its subsidiaries (with the exception of Sancus Funding 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.

The Group monitors the ratio of debt (loans payable, bonds and ZDP Shares) to other capital which, based upon shareholder approval, is limited to 5 to 1 (or 500%). At year-end this ratio increased to 113% (31 December 2017: 46%) due to the HIT facility. The HIT facility is non-recourse to GLI. Excluding HIT, the ratio at year-end was 68%.

(2) Liquidity risk

Liquidity risk is the risk that arises when there is a mismatch in the maturity of assets and liabilities, which results in the risk that liabilities may not be settled at contractual maturity. The Group's investments are generally more illiquid than publicly traded securities.

The Group Treasury Committee meets twice monthly to manage the liquidity position of the Group. 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 assets and 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, assuming interest rates in effect at the year-end.

	Current	Non-current
31 December 2018	**Within 12 months £'000**	**1 to 5 years £'000**
Assets		
Sancus BMS loans and loan equivalents	34,090	14,916
Sancus Loan Notes	3,311	-
FinTech Ventures investments	805	12,999
Other investments at fair value	-	327
Joint ventures and associates	-	2,855
Loans through Platforms	883	-
Trade and other receivables	5,656	-
Cash and cash equivalents	5,863	-
Total assets	50,608	31,097
Liabilities		
ZDP Shares	24,059	-
Corporate Bond	-	10,000
Sancus Loans Limited	-	22,684
Trade and other payable	2,635	-
Total liabilities	26,694	32,684
Net Liquidity	23,914	(1,587)

(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 2018	**Floating rate Financial Instruments £'000**	**Fixed Rate Financial Instruments £'000**	**Total £'000**
Assets			
Sancus BMS Loans and loan equivalents	9,948	39,058	49,006
Financial assets at fair value through profit and loss	-	2,196	2,196
Loans through Platforms	-	883	883
Cash and cash equivalents	5,863	-	5,863
Total assets	15,811	42,137	57,948
Liabilities			
ZDP shares	-	24,059	24,059
Corporate Bond	-	10,000	10,000
Sancus Loans Limited	-	22,684	22,684
Total liabilities	-	56,743	56,743
Total interest sensitivity gap	15,811	(14,606)	1,205

31 December 2017

Assets			
Sancus BMS Loans and loan equivalents	21,427	24,899	46,326
Financial assets at fair value through profit and loss	-	3,128	3,128
Loans through Platforms	-	908	908
Cash and cash equivalents	3,016	-	3,016
Total assets	24,443	28,935	53,378
Liabilities			
ZDP Shares	-	24,714	24,714
Corporate Bond	-	10,000	10,000
Total liabilities	-	34,714	34,714
Total interest sensitivity gap	24,443	(5,779)	18,664

Interest rate sensitivities

The floating rate financial instruments (excluding cash) comprise of an investment in the UK Sarl (2017: UK and Irish Sarls). The investment in the Irish Sarl was sold to Beach Point Capital on 14 September 2018 for proceeds of £6.4m. These investments attract a fixed coupon and a variable coupon. The variable coupon is dependent on the performance of the Sarl as opposed to general interest rates. As a result there is no exposure to interest rate movements (2017: Nil exposure).

The GLI 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. Investment risk primarily arises from the Group's exposure to its FinTech Ventures portfolio. This risk in turn is driven by the underlying risks taken by the platforms themselves – their own strategic, liquidity, credit and operational risks.

The Group's framework for the management of this risk includes the following:

- Seats on the boards of most of the platforms, which allow input into strategy and monitoring of progress;
- pre-emptive rights on participation in capital raises, or the support for capital raises, to protect against dilution;
- regular monitoring of the financial results of platforms;
- bi-annual reviews of the valuations of platforms, which provide an opportunity to test the success of platforms' strategies; and
- quarterly reporting to the Board on these matters.

The methodology for the valuation of such investments is noted above.

Investment valuation sensitivities

The following table gives information about how the fair values of financial assets categorised as level 3 in the fair value hierarchy are determined by the Company:

Valuation technique and key inputs	**Fair Value £'000**	**Fair Value £'000**	**Reason for any changes in valuation techniques from prior years**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
	At 31 December 2018	**At 31 December 2017**			
Market comparable transaction based on recent fundraising activity, adjusted for any relevant risk	12,636	15,346	Equity raises completing Q4 2017/ Q1 2018	Transaction price negatively adjusted by a range of 0%-50% for completion risk, nature of fundraising and other risks	A smaller adjustment for these factors would increase the fair value

Discounted cash flow forecasts	1,167	11,961	There has been no change in valuation techniques. Recent market comparable transaction data became available (see above).	Cash flows are discounted by a range of 25.1% to 27.1% for cost of equity and 15% for illiquidity of the investment. Significant internal sensitivities are also applied to the forecasts, creating high and low cases used in the weighted average output	A smaller adjustment for these factors would increase the fair value - see sensitivity analysis noted below
Fair value based on cost and adjusted for FX movement and any new investment (WC loan, convertible note etc)	-	2,291	None	None	None
Investment in redeemable preference shares of the loan notes is valued at fair value	3,311	10,907	None	Fair value which closely approximates the net asset value of the Loan Note Special purpose vehicles	None
Total	**17,114**	**40,505**			

When the discounted cash flow ("DCF") valuation methodology is utilised, the variables which influence the resultant valuations most significantly are the discount rates applied to the future cash flows, the revenue forecasts and the illiquidity discounts.

The tables below show the impact of stressing year-end valuations by the sensitivities which the Board believe to be reasonably foreseeable:

For DCF valuations:
Increasing and decreasing revenues by 20%
Increasing and decreasing discount rates by 5% (discount rates in valuation model average 25.1% to 27.1%)
Increasing and decreasing illiquidity discounts by 10% (discount applied in valuation model is 15%)

	Consolidated Statement of Comprehensive Income 31 December 2018 £'000
20% pa increase in revenue	100
20% pa decrease in revenue	(100)
5% increase in discount rate	(88)
5% decrease in discount rate	137
10% increase in illiquidity discount	(59)
10% decrease in illiquidity discount	59

The DCF methodology has been used on different investments and a different number of investments this year compared to the prior year. As a result, no prior year comparative has been given as it would not provide a meaningful comparison.

For market comparable transactions:
Increasing and decreasing discount by 10% and 20%

	Consolidated Statement of Comprehensive Income 31 December 2018 £'000
10% increase in discount	(503)
10% decrease in discount	503
20% increase in discount	(1,007)
20% decrease in discount	1,007

(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 balance sheet date. The risk assessment is undertaken by the Executive Team at the time of the agreements, and the Executive Team continues to evaluate the loan instruments in the context of these agreements. Credit risk is categorized into Stage 1, Stage 2 and Stage 3 with Stage 1 being to recognize 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 and the circumstances of the individual borrower. For the majority of loans security takes the form of real estate. As at 31 December 2018 90% of loans had a LTV less than 70%. There has been no significant change in the quality of this security over the prior year. When determining credit risk macro-economic factors such as GDP, unemployment rates and other relevant factors 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. A credit impairment will move an asset from stage 1 to stage 2 or from stage 2 to stage 3 with appropriate provision for ECL or write-off being made.

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 BMS 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 BMS is secured. The credit committee reports to the Sancus BMS Board on a quarterly basis.

Provision for ECL

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

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

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

The following tables provide information on amounts reserved for ECL on loans and loan equivalents as at 31 December 2018 based on the model adopted by management.

Sancus BMS loans and loan equivalents at 31 December 2018	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Closing loans at 31 December 2017	39,688	5,638	1,000	46,326
Adjustment on adoption of IFRS 9	-	(1,350)	-	(1,350)
Restated at 1 January 2018	39,688	4,288	1,000	44,976
New Loans	36,979	-	-	36,979
Loans Repaid	(23,459)	(3,169)	-	(26,628)

Transfers from Stage 1 to Stage 2	(5,663)	5,663	-	-
Transfers from Stage 1 to Stage 3	(5,207)	-	5,207	-
Transfers from Stage 2 to Stage 1	1,264	(1,264)	-	-
Transfers from Stage 3 to Stage 1	1,000	-	(1,000)	-
Loans written off	-	(1,763)	-	(1,763)
Movement in ECL	-	(306)	(941)	(1,247)
Closing loans at 31 December 2018	44,602	3,449	4,266	52,317

Loss allowance at 31 December 2018	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Closing loss allowance at 31 December 2017 (IAS 39)	-	-	-	-
Adjustment on adoption of IFRS 9	-	1,350	-	1,350
Opening loss allowance at 1 January 2018 (IFRS 9)	-	1,350	-	1,350
Individual financial assets transferred to Stage 2	-	1,581	-	1,581
Individual financial assets transferred to Stage 3	-	-	941	941
Write Offs	-	(1,085)	-	(1,085)
Provision no longer required (loans repaid)	-	(190)	-	(190)
Closing loss allowance at 31 December 2018	**-**	**1,656**	**941**	**2,597**

Assets transferred to Stage 3 relate to a loan where the borrower has gone into administration.
Assets transferred to Stage 2 relate primarily to one loan which is now in default.
Loans written off relate to loans where the Group has taken possession of assets held as security.

(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. The Group has made investments in currencies other than Sterling and is therefore exposed to this risk.

The extent of exposure is set out in the table below.

31 December 2018

Balance sheet exposure (000)	**Assets**	**Liabilities**	**Net**	**In £'000**	**Rates applied**	**% of Group total assets**
EUR	1,723	-	1,723	1,553	1.1094	1.57%
USD	7,208	-	7,208	5,657	1.2743	6.58%

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

Currency	**31 December 2018**	**30 June 2018**	**31 December 2017**	**30 June 2017**	**31 December 2016**
EUR	1.1094	1.1296	1.1258	1.1402	1.1731
USD	1.2743	1.3206	1.3508	1.3027	1.2340

Foreign exchange risk sensitivities

The sensitivity analysis below stresses the Group's outstanding foreign currency denominated financial assets and liabilities by a 15% increase/decrease in Sterling.

	Consolidated Statement of Comprehensive Income	
	31 December 2018	31 December 2017
	£'000	£'000
15% decrease in foreign exchange rates	1,272	4,180
15% increase in foreign exchange rates	(940)	(3,090)

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. Although this risk may be hedged, the current approach is not to hedge. No hedging instruments were used during either 2018 or 2017.

21. CHANGES IN ACCOUNTING POLICY

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018. As such the Group has adopted IFRS 9 for the first time in this set of Financial Statements, with preliminary reporting included within the June 2018 Interim report.

Key requirements of IFRS 9

Classification and measurement of debt assets will be driven by the entity's 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 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.

IFRS 9 also introduces a new expected credit loss impairment model, as opposed to the incurred credit loss model implemented under IAS 39 in previous years. This requires entities to account for expected credit losses at initial recognition and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

Finally, under IFRS 9 greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. Enhanced disclosure requirements about an entities risk management activities have also been introduced.

Impact of IFRS 9 – Classification and measurement

Sancus BMS loans, HIT loans, BMS fund investments, loan equivalents and loans through platforms are held solely for the collection of contractual cash flows, being interest, fees and payment of principal. These assets continue to be held at amortised cost on adoption of IFRS 9, and hence there is no change in classification or measurement of these assets.

FinTech Ventures investments relate to equity, preference shares and some working capital loans. Whilst some of these investments do attract interest the assets are held primarily to assist the development of the entities involved. These investments continue to be held at fair value with charges recognised in profit and loss on adoption of IFRS 9, and hence there is no change in classification or measurement of these assets.

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. These assets continue to be held at amortised cost on adoption of IFRS 9, and hence there is no change in classification or measurement of these assets and liabilities.

Impact of IFRS 9 – Impairment

Sancus BMS loans and loan equivalents have been assessed for credit risk based on information available at initial recognition, predominantly (but not solely) using Loan to Value (LTV). 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. The judgement used for a significant increase in credit risk includes for example moving up through the LTV brackets and 30 days past due.

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. Provision for ECL has been 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. For first time adoption Credit risk and provision for ECL has been assessed at 31 December 2018 and 31 December 2017. Going forward credit risk and provision for ECL will be assessed at initial recognition and re-assessed at each reporting period-end. Given the nature of the loans (in most cases short term bridging loans), ECL assumes the life of the loan is consistent with contractual terms.

With respect to the loans to the UK SARL there is no direct exposure to individual loans. As a result these two loans have been assessed for credit risk based upon the Net Asset Value (NAV) of the SARLs, and their ability to repay the loans. Should the NAV of the SARLs fall materially then the loans will have been deemed to have fallen into Stage 2, with a further significant drop in NAV pushing the loans into Stage 3. Provision for ECL has been made according to the credit risk and the deemed ability of the SARL to repay the loan. Credit risk and ECL has been assessed at 31 December 2018 and 31 December 2017 and going forward will be re-assessed at each reporting period-end.

For trade and other receivables, the Group has applied the simplified approach to recognise lifetime expected credit losses.

The Group has elected to apply the exemption in IFRS 9 relating to transition for classification and measurement, and impairment. Accordingly the comparative period has not been restated. As a consequence:

- Any adjustments to carrying amounts of financial assets and liabilities are recognised at the beginning of the current reporting period, with the difference recorded in opening retained earnings;
- Provisions for impairment have not been restated in the comparative period; and
- Financial assets are not restated in the balance sheet for the comparative period, and hence a third balance sheet as at December 2016 is not presented.

Had prior year balances been restated Sancus BMS loans and loan equivalents would have been £1,350,000 lower than stated in the 2017 annual financial statements as follows:

	£'000
Sancus BMS loans and loan equivalents as at 31 December 2017 under IAS 39	46,326
Amounts restated through retained earnings on adoption of IFRS 9	(1,350)
Restated Sancus BMS loans and loan equivalents as at 31 December 2017 under IFRS 9	44,976

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' specifies how and when to recognise revenue as well as requiring entities to provide users of financial statements with more favourable, relevant disclosures. The standard provides a single, principles based five step model to be applied to all contracts with customers. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, and hence has been adopted for the first time in this set of financial statements. There has been no impact on timing of recognition or gross up for principal/agents considerations on the adoption of IFRS 15. The only affect is a minor presentational change which distinguishes revenue streams between those that represent streams from contracts with customers and other streams which are out of the scope of IFRS 15.

22. SHARE-BASED PAYMENTS

On 26 September 2017, the Company granted a total of 10,000,000 options over ordinary shares of no par value to certain directors of the Company. The Options will vest in three equal tranches on the first, second and third anniversaries of the Grant with exercise prices of 25p, 30p and 35p respectively. The options are not subject to performance conditions.

The expense recognised for these share-based payments during the year to December 2018 is £44,409 (2017: £8,475).

Details of the share options outstanding during the year are as follows:

	31 December 2018		**31 December 2017**	
	Number of share options	**Weighted average exercise price**	**Number of share options**	**Weighted average exercise price**
Outstanding at the beginning of the year	10,000,000	30p	-	-
Granted during the year	-	-	10,000,000	30p
Outstanding at the end of the year	10,000,000	30p	10,000,000	30p
Exercisable at the end of the year	3,333,333	25p	-	-

The estimated fair values of the options granted were 0.99p, 1.06p and 0.84p for the first, second and third tranches respectively. The weighted average fair value of the options not yet exercised is 0.96p. These fair values were calculated using The Black-Scholes pricing model. The inputs to the model were as follows:

	Tranche 1	**Tranche 2**	**Tranche 3**
Weighted average exercise price	25p	30p	35p
Expected volatility	45%	40%	34%
Expected contracted life	2 years	3.5 years	5 years
Risk free rate	0.45%	0.50%	0.76%

The expected volatility was determined by reference to the share price volatilities of the company itself, over the life of the options.

23. RELATED PARTY TRANSACTIONS

Transactions with the Directors/Executive Team

Non-executive Directors

As at 31 December 2018, 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 2018 £	**31 December 2017 £**
Patrick Firth (Chairman)	50,000	50,000
John Whittle	42,500	42,500

There was no increase in the Directors' base fees during the year ended 31 December 2018. Total Directors' fees charged to the Company for the year ended 31 December 2018 were £92,500 (31 December 2017: £92,500) with £Nil (31 December 2017: £Nil) remaining unpaid at the year-end.

Executive Team

The Executive team consists of Andrew Whelan, Russell Harte (ceased employment on 1 July 2017), Emma Stubbs, Aaron Le Cornu (commenced employment 1 May 2017), and Dan Walker (commenced employment 2 January 2018).

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, was as detailed in the table below:

	31 December 2018 £'000	**31 December 2017 £'000**
Aggregate remuneration in respect of qualifying service – fixed salary	706	565
Aggregate amounts contributed to Money Purchase pension schemes	95	79
Aggregate bonus paid (shares and cash)	785	550

All amounts have been charged to Operating Expenses.

At the Company's annual general meeting ("AGM") held on 10 May 2017 shareholders approved terms for a revised long-term incentive scheme, pursuant to which members of the Executive Team will be entitled to receive options to subscribe for new Ordinary Shares in the capital of the Company ("Share Options") at strike prices of 25p, 30p and 35p and will vest on the first, second and third anniversaries of the respective grant (the "New Scheme"). The New Scheme took effect from the date of the AGM and replaces the previous Executive Bonus Scheme.

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 2018 No. of Ordinary Shares Held	31 December 2018 % of Ordinary Shares	31 December 2017 No. of Ordinary Shares Held	31 December 2017 % of Ordinary Shares
Patrick Firth *(Chairman)*	278,669	0.09	278,669	0.09
John Whittle	104,550	0.03	104,550	0.03
Andrew Whelan	8,051,912	2.58	8,051,912	2.58
Emma Stubbs	1,005,485	0.32	1,005,485	0.32
Aaron Le Cornu	1,005,485	0.45	445,790	0.15
Dan Walker	-	-	-	-

During the year no directors received dividends on their Ordinary Share holdings in the Company (2017: Mr Firth £1,694, Mr Whittle £Nil, Mr Whelan £43,506 and Mrs Stubbs £2,022).

See Note 28 for details of the Directors' interests in the Ordinary Shares of the Company as at the date of this report.

As at 31 December 2018, there were 10,000,000 unexercised share options for Ordinary Shares of the Company (31 December 2017: 10,000,000 Ordinary Shares) (Note 22).

During the year Mr Whelan received £56,000 in relation to the coupon on his holding of £800,000 GLI Bonds.

Transactions with connected entities

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

	31 December 2018 Balance £'000	31 December 2018 Interest accrued in the year £'000	31 December 2017 Balance £'000	31 December 2017 Interest accrued in the year £'000
Platform loans & corresponding interest				
GLIF and investments in FinTech Ventures	2,199	413	3,128	668
Platform preference shares & corresponding interest				
GLIF and investments in FinTech Ventures	-	(496)	1,916	739

	31 December 2018 £'000	31 December 2017 £'000
(Payable)/receivable to/from related parties		
Sancus (IOM) Holdings Limited	2	(948)
Sancus (IOM) Limited	43	24
Amberton Asset Management Limited	(151)	-
Office and staff costs recharges		
Amberton Asset Management Limited	39	47

There is no ultimate controlling party of the Company.

All platform loans and preference shares bear interest at a commercial rate.

24. OPERATING LEASE ARRANGEMENTS

The Group as Lessee

Lease payments under operating leases (net of sub rentals) recognised as an expense in the year amounted to £197,000 (2017: £197,000).

As at 31 December 2018, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 December 2018 £'000	31 December 2017 £'000
Within one year	223	328
In the second to fifth years inclusive	677	883
After five years	107	107
	1,007	1,318

All lease commitments relate to office space.

The Group as Lessor

At 31 December 2018 the group had contracted with tenants for the following future minimum lease payments:

	31 December 2018 £'000	31 December 2017 £'000
Within one year	110	110
Between two and five years	440	440
Over 5 years	73	183
	623	733

25. CONTINGENT LIABILITIES

The sub tenant responsible for the lease payments noted in Note 24 "The Group as Lessor" has given notice to terminate their lease from the end of February 2019. Should another tenant not be found in time then the Group will be responsible for the lease payments noted in Note 24 until such a time as another tenant can be found.

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26. GUARANTEES

The Group undertakes a number of Guarantees and first loss positions which are not deemed to be contingent liabilities under IAS 37 as there is no present obligation for these guarantees and it is considered unlikely that these liabilities will crystallise.

HIT Facility

Sancus BMS Group has invested £5m of its own capital in Sancus Loans Limited which sits in a £5m first loss position as part of the HIT facility. GLI 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 BMS Group, given its position as facility and security agent.

Sancus Loan Notes

Sancus BMS typically provides first loss positions as part of the Loan Note structures. At 31 December 2018, Sancus BMS had invested its own capital in SLN2 which sat in a £3m first loss position. This was repaid in February 2019 and so has now dropped away. SLN3 was also repaid during the year and its 20% first loss position has ceased.

This leaves SLN4 where Sancus BMS has no capital invested but has a 20% first loss position. As all the loans within the SLNs are asset backed with loan to values typically below 65%, the probability of these first loss positions being called upon is considered low, but the positions have been included within the calculations for IFRS 9 provisioning.

SLN5 was launched during 2018 and again Sancus BMS has no capital invested but has a 10% first loss position. This loan note is currently at £16.7m and has a limit of up to £50m.

Sancus Finance

Sancus Finance provides a 10% first loss position on certain working capital transactions and its obligations are supported by a Group Guarantee of up to £2m. With the announcement in February 2019 that this operation is closing, going forward this guarantee will cease.

For IFRS 9 purposes in calculating our capital at risk provision ratio of 4.5%, we have included the Sancus on balance sheet loans, plus the full amount of those loans which include the first loss risk position we have with HIT and the Loan Notes.

27. PERFORMANCE MEASURES

We have identified the below performance measures which for Sancus BMS we will report on going forward as we believe improving these will maximize shareholder value.

Return on Tangible Assets ("ROTA")

This is operating profit (including credit losses) divided by total assets less goodwill.

Cost Income Ratio

This is total operating expenses divided by total revenue.

28. POST YEAR END EVENTS

Directors and PDMR Interests

At the date of these financial statements the Directors and PDMRs had the following beneficial interests in the Ordinary Shares of the Company:

	No. of Ordinary Shares Held	% of Ordinary Shares
Patrick Firth *(Chairman)*	278,669	0.09
John Whittle	104,550	0.03
Andrew Whelan	9,553,734	3.06
Emma Stubbs	1,380,940	0.44
Aaron Le Cornu	1,405,790	0.45
Dan Walker	911,300	0.29

Closure of the supply chain finance offering in the UK

On 8 February 2019, it was announced that Sancus Finance Limited, a subsidiary of the Group which operates its supply chain finance offering in the UK, remained loss making and while its performance improved in 2018, it was behind management's expectations with an operating loss of £1.0 million. The Group believes the market for supply chain finance has changed significantly, with credit insurers reducing appetite to write cover and increasing premiums markedly. In light of this, and recognising the difficult market conditions facing supply chain finance more generally, the Group took the decision to close its supply chain finance offering.

Adjusting post balance sheet events

On 8 February 2019, it was announced that the Group had an exposure to a supply chain finance borrower which had recently gone into administration. In light of the latest discussions with the administrator, the Group has fully provided for this exposure in the financial statements to 31 December 2018 by recognizing a £0.9m provision under IFRS 9 in respect of Expected Credit Losses and a £0.2m charge to cost of sales in relation to the first loss on the credit insurance policy.

Notice of Group acquiring own ZDP shares

Post year-end the Group announced that it had been acquiring back ZDPs in the market. In total post year-end 1.6m shares were acquired at a total price of £1.9m.

Notice of EGM to acquire up to a further 14.99% of issued ZDP Shares

On the 8 March 2019, the Company published a circular including a notice of an extraordinary general meeting to seek authority from the Company's shareholders to renew the authority previously granted at the 2018 annual general meeting authorising the Company to make market acquisitions of redeemable ZDPs in the capital of the Company.

Change of Registered Office

On the 15 March 2019, the Company announced that, effective from that date, it had changed its registered office and business address to Block C, Hirzel Court, Hirzel Street, St Peter Port, Guernsey, GY1 2NL.