RETAIL MONEY MARKET LTD

Annual Report and Consolidated Financial Statements

For the year ended 31 March 2017

Registered number: 07075792

Contents

RETAIL MONEY MARKET LTD

Officers and professional advisors

Directors

P W E Behrens
I D Boyce
M Davies
H S Garmoyle (resigned 28/02/2017)
J W G Gunner
A R F Hughes (Chairman)
A R Lewis (Chief Executive)
H J T Russell

Registered office

6th Floor
55 Bishopsgate
London
EC2N 3AS

Independent auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Chairman's statement for the year ended 31 March 2017

This has been a transformative year for RateSetter. We invested to strengthen and adapt our operation for the opportunities we see ahead.

Revenue grew by almost 40%, further underlining the potential of opening up the asset class of loans to everyone. During the year we exited some lines of business that proved to be incompatible with our purpose and we have tuned risk appetites in anticipation of widely reported economic uncertainties. We have expanded the Strategic Report this year to give more details on these changes.

After the year end, it was announced that RateSetter's founder and CEO, Rhydian Lewis, is to receive an OBE for services to financial services. This is real recognition of what has been achieved by Rhydian and the whole team at RateSetter.

We have been very encouraged by the support of our shareholders throughout all this. After the year end we raised a further £13.0m of capital for the next stage of growth and our focus is now on returning to profitability.

I wish to express our sincere thanks to Hugh Garmoyle who left the board in 2017. We benefited greatly from Hugh's wise counsel. After the year end, we were delighted that Paul Manduca agreed to join the board as a non-executive director. Paul will take over from me as Chairman in July 2017 when my term ends. He will prove a considerable asset to RateSetter.

My term at RateSetter has seen exponential growth and a considerable maturing of the operations of the business. I am proud to have been a part of that and look forward to RateSetter's future success.

Finally, I would like to express my sincere thanks to the shareholders and the staff of RateSetter for their continued support during the past twelve months.

Alan Hughes
11 July 2017

The directors present their Strategic Report for Retail Money Market Ltd ("the Company") and its subsidiaries (together "the Group" or "RateSetter") for the year ended 31 March 2017.

Review of the business

Activity, purpose and objectives

The principal activity of the Group throughout the year was peer-to-peer lending, facilitating loans between lenders and borrowers via the RateSetter platform. The majority of transactions are conducted via the RateSetter website and the Group is committed to delivering a simple and easy-to-use platform.

RateSetter's purpose is to make investing better by opening the asset class of loans to everyone.

RateSetter's objectives are:

Customers

- To aspire to the highest levels of customer service satisfaction
- To give investors access to a new asset class
- To give borrowers access to affordable finance to achieve their goals

Colleagues

- To make people feel proud to work for RateSetter
- To offer career development at RateSetter

Company

- To be a profitable company that manages its risks well to ensure long-term growth prospects
- To be a well-regarded company in the eyes of our regulator and wider industry

Customers

The Group seeks a diversified customer base on both sides of its platform. The lenders are predominantly individuals: as at 31 March 2017, 93% of the outstanding loans under management were funded by individuals. The borrowers are a mix of individuals and businesses, with originations during this financial year split 69% and 31%, respectively. The borrowing markets targeted in this financial year were:

Consumer Finance

- Personal Loans
- Retail Finance

Commercial Finance

- Business loans
- Residential property development loans
- Wholesale lending to specialist lending businesses (discontinued in December 2016)

Credit risk and the Provision Fund

The platform is opening the asset class of loans to everyone. This asset class sits between the guarantee of a deposit and the volatility of an equity investment.

RateSetter manages its lenders' exposure to credit risk in two ways. Firstly, RateSetter performs the initial credit assessment seeking to approve creditworthy borrowers and then manages the loans throughout their term, including repayment and recovery. Secondly, RateSetter manages a Provision Fund to provide lenders with a buffer against credit risk and to provide an efficient form of diversification. This diversification is achieved by virtue of the fact that all borrowers pay a risk-adjusted fee into the Provision Fund and all lenders are entitled to the compensation the Provision Fund can offer. As such, the lender's risk is based on the performance of the whole portfolio of loans. The Provision Fund provides protection limited to the value of the capital held in the Provision Fund at any point in time. Although the track record of the Provision Fund is such that, to date, individual lenders have always received their interest and capital in full at the due date, it is not a guarantee and lenders are not covered by the Financial Services Compensation Scheme.

The strength of the Provision Fund is expressed by an estimated "Coverage Ratio". This is calculated by dividing the size of the Provision Fund by the sum of future Expected Losses over the lifetime of the loans. The size of the Provision Fund is its current assets plus its future contracted income from loan fees discounted to take into account income that may not ultimately be received due to early repayment or non-payment by the borrower. The Expected Losses calculation is updated and reviewed quarterly. During the last twelve months, RateSetter has started to target a Coverage Ratio of between 125% and 150%.

In March 2017, RateSetter updated its Terms and Conditions such that in the event of the Coverage Ratio being at risk of going below 100%, a "Stabilisation Period" can be called during which time a percentage of every lender's interest would be diverted to the Provision Fund to restore its coverage. If this were exhausted, there would be a charge on every lender's capital as well. This change was introduced to bring resilience to the Provision Fund model in the event of worse-than-expected credit performance and to mitigate previous concerns that the previous Provision Fund model was too binary an outcome for lenders. The objective is to make the RateSetter model more resilient to credit cycles.

Revenues

Revenues arise principally from fees charged to borrowers, comprising upfront arrangement fees and ongoing service fees. The Group also receives revenue from Credit Performance Fees and from levying a charge to lenders for early exit.

Credit Performance Fees represent the recognition as revenue of any surplus risk fees. During the year, RateSetter has amended its revenue recognition policy with regard to the Credit Performance Fees, so that these fees are only recognised once a cohort of loans is fully amortised (previously it was recognised throughout the lifetime of the cohort). This revised policy has been applied retrospectively to the prior year figures resulting in a £0.4m increase in brought forward retained losses.

Significant changes to the business during the year

During the year, significant changes included an increase in fixed costs (resulting from ongoing investment), the change to the Provision Fund described above and the Group's decision to stop its wholesale lending. This decision was taken in December 2016 following the emergence of regulatory uncertainty as to whether this form of lending was compatible with the peer-to-peer lending model, as well as a desire to focus on direct origination of loans. The existing wholesale loans are winding down. Throughout the process, the Group has been in close contact with the FCA and is closely managing the transition in the interests of lenders.

During the restructuring of a wholesale intermediary, the Group decided to intervene in the repayment of a loan made by that wholesale intermediary. This loan was to an advertising company (Adpod Limited) but was outside of the intermediary's specialist lending area. The Group determined that because this loan was outside RateSetter's credit policy, it was appropriate to support the loan repayments from its own capital. The Company has met the monthly loan repayments since August 2016 and will continue to do so until the loan is fully repaid (the outstanding loan balance was £9.0m as at 31 March 2017). As part of this arrangement, Adpod Limited became a fully-owned subsidiary of the Company and the Company has invested a further £1.2m to stabilise the business. The Company will seek to maximise recovery, ideally via a full sale. This is an exceptional incident that arose through a sequence of events that could not happen again.

Investment

The Group has continued to invest in infrastructure, technology, risk management and people. Average headcount has increased from 118 employees during the year ended 31 March 2016 to 187 employees during the year ended 31 March 2017.

Regulation

The Company has been operating under interim permission from the Financial Conduct Authority (FCA) since 1 April 2014. An application for full authorisation was made in October 2015 and is progressing. Full authorisation will allow the Company to offer its own ISA in accordance with the launch of the Innovative Finance ISA, as announced by the government in 2015.

Results and performance

The results of the Group for the year, as set out on pages 13-15, show a loss on ordinary activities before tax of £23.3m (2016: £5.3m loss) and shareholders' funds of £9.1m (2016: £23.7m).

Upon acquisition of Adpod Limited the Group recognised a goodwill impairment charge of £13.8m.

Excluding the goodwill impairment, the loss before tax was £9.5m, of which £7.8m relates to the core RateSetter business and £1.7m relates to Adpod Limited.

During the year, the Group has valued its investment in RateSetter Australia Pty Limited at fair value (previously held at cost), which has resulted in a gain of £8.8m.

The underlying performance during the financial year reflects the continued growth of the Group. Revenue increased by 37.8% from £17.2m to £23.7m, driven by an increase in both the value of new loan originations and the outstanding loans under management. Despite this revenue growth, the overall loss before taxation was driven by the continued significant investment in infrastructure, technology, risk management and people. The trend in investment and growth is expected to continue during the next financial year. The Group is focused on achieving profitability as soon as possible.

Analysis of key performance indicators

The Board monitors the progress of the Group by reference to the following KPIs:

	2017	2016
Loans under management as at 31 March	£714.0m	£581.3m
Number of active lenders as at 31 March	42,049	31,036
Revenue for the year	£23,700,866	£17,211,841
Loss before tax for the year	(£23,265,015)	(£5,315,753)

Risks and uncertainties

Risk management

Risk management lies at the centre of the business and the Group recognises its effectiveness is key to its reputation.

As well as specific risks, the Group strategically focuses on a sustainable business model evidenced by its:

- Development of a diverse range of borrower channels with no reliance on a single channel;
- Development of a wide lender base with no reliance on a single lender; and,
- Decision to take a significant part of its revenue over the course of the loans as opposed to all upfront in order to build a recurring revenue base and to lower reliance on transactional revenue.

The Group has developed a strong risk management framework, based on the 'three lines of defence' model. This includes:

- A clearly defined "Credit Risk Framework and Risk Appetite" policy;
- The recruitment of specialist skills in retail and commercial credit underwriting and monitoring;
- Control procedures that segregate the responsibilities for the origination, credit assessment and monitoring of borrowers;
- Retail and Commercial Credit Committees to monitor the credit performance of borrowers as well as the counter-party risk associated with any intermediaries or partners;
- An Expected Loss Committee to review the calculation of Expected Losses;
- A performance management system that places risk management at the centre of the Group's objectives;
- The development of a strong compliance function;
- A Board Risk Committee, with an independent Non-Executive risk specialist as chair; and,
- A Board Audit Committee, with an internal auditor to support the committee and provide an independent assessment.

On top of its core credit risk management, the Group manages other risks:

<u>Operational:</u> the risk of financial loss or reputational damage resulting from inadequate or failed internal processes, people or systems or from external events including financial crime. The Group maintains robust operational systems and controls and has been investing heavily in building up its capabilities for the next stage of growth. In particular, the Group has invested to make its IT infrastructure resilient and well-protected against cyber-crime. To mitigate specific fraud risk, the Group continues to invest in fraud specialists and anti-fraud tools as well as being a member of CIFAS, the UK's fraud prevention service.

<u>Conduct:</u> the risk of detriment to the Group's customers due to the inappropriate execution of its business activities and processes. The Group mitigates conduct risk by observing and tracking activities which affect customers, monitoring customer complaints and implementing any mitigations or process improvements required. The Group also seeks to be as transparent as possible in all its activities. The business model is transparently explained on RateSetter's website and RateSetter publishes a range of historical and current RateSetter market data to inform customers of the performance of the Group and the underlying loan portfolio, including allowing customers to download the full loan book.

Market: the risk of financial losses through asset or liability positions sensitive to changes in market prices, interest rates or foreign exchange rates. During the year, the Group revalued its investment in RateSetter Australia Pty Limited to reflect its fair value, which exposes the Group to the fluctuation of the Australian Dollar against Pound Sterling. The Group has also invested a proportion of the Provision Fund in a number of listed debt and equity investments. These will require marking to market and as such the Group is exposed to any market movements and the impact of any movements in interest rates. The Group seeks to mitigate this risk by monitoring any movements and reviewing the potential risk on a regular basis.

Indirectly, the Group bears some interest rate risk from the variable rates in its rolling market. The Group allows its lenders to exit from their lending in this market free of any cost and therefore bears the interest rate risk associated with any change in the rates resulting from the replacement of a lender. The Group monitors this on a regular basis, with any potential financial risk reflected in a provision for onerous contracts (see Accounting Policies).

Liquidity: the direct risk that the Group is not able to meet its financial obligations as they fall due. The Group's liquidity position is monitored and reviewed on an ongoing basis by the directors. Following the acquisition of Adpod Limited, RateSetter became liable for the repayment of the debt in Adpod Limited. As at 31 March 2017, these borrowings totalled £9.5m with £1.8m repayable in the period to 31 March 2018 and the remainder to be settled over a five year period. Post year end, the Group completed a fund-raise of £13.0m to support the Group through to profitability.

Regulatory: The Group monitors closely any changes in the regulatory environment that might impact the business. The Group is open and proactive with its regulators and is working closely with the FCA to achieve full authorisation. The Group was one of the three founding members of the Peer-to-Peer Finance Association which was established in 2011 to promote high standards in the industry.

Post Balance Sheet Events

Restructuring of wholesale lending arrangements

Since year end, the Group has revised its relationships with its wholesale partners, which has included the following investments.

- Vehicle Trading Group Limited: this company became over-indebted and was placed in administration. As a means of improving its position RateSetter bought the two operating subsidiaries in May 2017: Vehicle Credit Limited (which makes car loans to consumers) and Vehicle Stocking Limited (which makes stocking loans to motor dealerships). The Group intends to integrate fully the businesses to become product lines of RateSetter such that RateSetter lenders will lend directly to the end borrowers. The Group believes this acquisition represents an opportunity for RateSetter to expand its direct distribution capability in motor finance. The businesses are continuing to repay their existing wholesale loans, which are secured on the underlying loan portfolios of these two businesses. It is too early to establish what additional integration costs might be incurred and these investments will need to be reviewed for any potential impairment ahead of the next year end.
- George Banco Limited: RateSetter obtained a minority equity stake in April 2017. An arrangement whereby George Banco loans would be funded directly by RateSetter lenders under a broker agreement was explored but ultimately the parties decided to pursue another course. RateSetter will remain a supportive minority shareholder and the existing wholesale loans will continue to amortise as per their schedule.

Senior Appointments

The Group is delighted to have appointed Paul Manduca as Non-Executive Chairman. He joined the Board on 1 June 2017 and becomes Chairman on 17 July 2017, when the term of the current Chairman, Alan Hughes, expires. RateSetter would like to take this opportunity to thank Alan Hughes for his outstanding contribution and the specific expertise he has brought to bear in the development of the business during the last three years.

Capital Raise

The Group completed a capital raise of £13.0m in May 2017.

Future Developments

Growth

The Group will continue to focus on growing responsibly and productively, expanding its lender base and deepening its borrower distribution channels as well as investing in its underlying technology and operations in anticipation of the next stage of controlled growth. As its proposition becomes more widely known and as the Company develops and matures it expects significant future growth.

Regulation

Since March 2017, a number of peer-to-peer lenders have been fully authorised by the FCA. The Group sees this as a very positive development. The Group remains in close contact with the FCA about gaining full authorisation and it hopes to achieve this soon.

Approved by the Board of directors and signed on behalf of the Board by:

A R Lewis
Director
11 July 2017

Directors' report for the year ended 31 March 2017

The directors present their report and the financial statements of Retail Money Market Ltd ("the Company") and its subsidiaries ("the Group") for the year ended 31 March 2017.

The Strategic Report on pages 3-7 contains a review of the performance of the Group during the year and provides information on the development of the Group's business.

Principal activity

The principal activity of the Group throughout the year was peer-to-peer lending, acting as a financial intermediary to match lenders and borrowers via the RateSetter platform.

Dividend

The directors do not propose a dividend in respect of the year ended 31 March 2017 (2016: £nil).

Future developments

Future developments in the business of the Group are discussed in the Strategic Report.

Directors

The directors of the Group who each served during the year were:

P W E Behrens
I D Boyce (Non-executive Director)
M Davies (Non-executive Director)
H S Garmoyle (Non-executive Director; resigned 28/02/2017)
J W G Gunner (Non-executive Director)
A R F Hughes (Non-executive Director and Chairman)
A R Lewis (Chief Executive)
H J T Russell

Auditors

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- they have taken all the steps that ought to have been taken as a director to be aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Going concern

The Group is currently loss-making, reflecting the costs associated with the ongoing development and restructuring of the operations of the Group as part of its investment phase.

As at 31 March 2017 the Group had available cash of £6.9m. It has a good track record of raising funds and since year end, it has raised a further £13.0m to support the Group through to profitability.

Following two years of investment, the Group is now focused on getting to profitability as soon as possible and based on its latest forecasts it has adequate capital resources to trade through to profitability. This is after any potential exceptional costs associated with the integration of its acquisitions and after the ongoing service of the debt within Adpod Limited, which is amortising over the period to November 2021.

The Group faces a number of risks and uncertainties which are detailed in the Strategic Report. During the year, the directors have continued to develop a robust risk management framework appropriate for the next stage of growth. Investment continues in this key area to ensure responsible management of the growth of the Group.

Considering the above factors, the directors of the Group have reasonable expectations that the Group has adequate resources to continue its operational activities for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Approved by the Board of directors and signed on behalf of the Board by:

A R Lewis
Director
11 July 2017

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report and Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the comprehensive income of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that the directors:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that comply with that law.

RETAIL MONEY MARKET LTD

Independent auditor's report

We have audited the consolidated financial statements of Retail Money Market Ltd ("the Company") and its subsidiaries (together "the Group") for the year ended 31 March 2017 which comprise of the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of financial position, the consolidated statement of cash flows, the Company statement of changes in equity, the Company statement of financial position and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 March 2017 and of the Group's loss for the year then ended;
- the Group and Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and,
- the Group and Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and,
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- the Company financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Michael-John Albert (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London

11 July 2017

RETAIL MONEY MARKET LTD

Consolidated statement of comprehensive income for the year ended 31 March 2017

	Note	2017 £	2016 Restated £
Revenue		23,700,866	17,211,841
Cost of sales		(2,880,517)	(1,728,277)
Gross profit		**20,820,349**	**15,483,564**
Administrative expenses		(30,005,936)	(21,041,794)
Operating loss	5	**(9,185,587)**	**(5,558,230)**
Interest receivable and dividend income	8	126,879	242,477
Interest payable	9	(395,725)	-
Impairment of goodwill on acquisition	10	(13,810,582)	-
Loss before taxation		**(23,265,015)**	**(5,315,753)**
Income tax credit	11	37,852	868,140
Loss for the year		**(23,227,163)**	**(4,447,613)**
Other comprehensive income	14	8,919,574	-
Total comprehensive loss for the year		**(14,307,589)**	**(4,447,613)**

All amounts relate to continuing activities.

The notes on pages 19 to 42 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 March 2017

	Share capital £	Share premium £	Other reserves £	Revaluation reserve £	Retained losses £	Total £
At 1 April 2015	**5**	**29,707,098**	**(622,833)**	-	**(961,462)**	**28,122,808**
Shares issued in the year	-	103,095	-	-	-	**103,095**
Shares purchased by the employee benefit trust in the year	-	-	(219,577)	-	-	**(219,577)**
Reduction of capital	-	(15,000,000)	15,000,000	-	-	-
Share option award	-	-	138,114	-	-	**138,114**
Current tax in respect of share-based payments	-	-	57,346	-	-	**57,346**
Deferred tax in respect of share-based payments	-	-	(67,981)	-	-	**(67,981)**
Loss for the year	-	-	-	-	(4,447,613)	**(4,447,613)**
At 31 March 2016 Restated	**5**	**14,810,193**	**14,285,069**	-	**(5,409,075)**	**23,686,192**
Shares issued in the year	1	442,836	-	-	-	**442,837**
Shares purchased by the employee benefit trust in the year	-	-	(250,569)	-	-	**(250,569)**
Reduction of capital	-	(14,860,182)	14,860,182	-	-	-
Share option award	-	-	105,023	-	-	**105,023**
Deferred tax in respect of share-based payments	-	-	(529,934)	-	-	**(529,934)**
Revaluation of investments	-	-	-	8,919,574	-	**8,919,574**
Loss for the year	-	-	-	-	(23,227,163)	**(23,227,163)**
At 31 March 2017	**6**	**392,847**	**28,469,771**	**8,919,574**	**(28,636,238)**	**9,145,960**

Other reserves is made up of the share option reserve, the distributable capital reserve and the own shares reserve.

The share option reserve is made up of share options awarded to employees since October 2010. Further detail is provided in Note 24.

The distributable capital reserve of £29.9m (2016: £15.0m) arose following a reduction of capital (a transfer from share premium to a distributable capital reserve) in both the current and prior financial years to ensure that the Company retains sufficient capital to remain compliant with the FCA regulatory capital requirements.

The own shares reserve represents shares being held by an employee benefit trust as part of a Joint Share Ownership Plan and on behalf of current employees. The value of the own shares reserve represents the consideration paid by the employee benefit trust in respect of the joint ownership and the shares held on behalf of the employees.

The revaluation reserve relates to the revaluation of AFS financial assets to fair value. Further detail is provided in Note 14.

RETAIL MONEY MARKET LTD

Consolidated statement of financial position as at 31 March 2017

	Note	2017 £	2016 Restated £
Fixed assets			
Intangible assets	12	107,342	32,787
Property, plant and equipment	13	2,281,487	1,331,137
Investments held at fair value	14	12,273,800	16
		14,662,629	1,363,940
Non-current assets			
Deferred tax asset	17	1,522,509	2,014,591
		1,522,509	2,014,591
Current assets			
Trade and other receivables	16	2,330,275	6,407,570
Loans and other lending	18	-	1,275,000
Cash and cash equivalents		6,925,335	15,394,441
Restricted cash		11,327,768	6,946,504
		20,583,378	30,023,515
Total assets		**36,768,516**	**33,402,046**
Current liabilities			
Trade and other payables	19	(4,195,374)	(2,934,229)
Deferred income and credit loss provision	20	(13,265,162)	(6,567,985)
Loans and borrowings	21	(1,793,365)	-
Provisions	22	(234,322)	(118,857)
		(19,488,223)	(9,621,071)
Non-current liabilities			
Loans and borrowings	21	(7,711,540)	-
Provisions	22	(422,793)	(94,783)
		(8,134,333)	(94,783)
Total liabilities		**(27,622,556)**	**(9,715,854)**
Net assets		**9,145,960**	**23,686,192**
Equity			
Share capital	23	6	5
Share premium		392,847	14,810,193
Other reserves		28,469,771	14,285,069
Revaluation reserve		8,919,574	-
Retained losses		(28,636,238)	(5,409,075)
Equity shareholders' funds		**9,145,960**	**23,686,192**

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 11 July 2017 by:

A R Lewis
Director

H J T Russell
Director

Registered Number: 07075792

RETAIL MONEY MARKET LTD

Consolidated statement of cash flows for the year ended 31 March 2017

	Note	2017 £	2016 £
Net cash flows from operating activities	25	**3,746,070**	**(2,240,480)**
Investing activities			
Purchase of property, plant and equipment		(197,243)	(1,334,905)
Purchase of intangible assets		(92,502)	(31,200)
Purchase of investments		(3,354,210)	-
Dividends and interest received		126,879	242,477
Net cash acquired on acquisition of subsidiary		8,276	-
Repayment of loans held at amortised cost		1,275,000	-
Net cash flows from investing activities		**(2,233,800)**	**(1,123,628)**
Financing activities			
Proceeds from exercise of share options		442,837	103,095
Purchase of own shares by employee benefit trust		(250,569)	(219,577)
Interest paid		(395,725)	-
Repayment of borrowings		(5,396,655)	-
Net cash flows from financing activities		**(5,600,112)**	**(116,482)**
Net decrease in net funds		(4,087,842)	(3,480,590)
Net funds at 1 April		22,340,945	25,821,535
Net funds at 31 March		**18,253,103**	**22,340,945**

RETAIL MONEY MARKET LTD

Company statement of changes in equity for the year ended 31 March 2017

	Share capital £	Share premium £	Other reserves £	Revaluation reserve £	Retained losses £	Total £
At 1 April 2015	**5**	**29,707,098**	**(622,833)**	**-**	**(106,400)**	**28,977,870**
Shares issued in the year	-	103,095	-	-	-	**103,095**
Shares purchased by the employee benefit trust in the year	-	-	(219,577)	-	-	**(219,577)**
Reduction of capital	-	(15,000,000)	15,000,000	-	-	-
Share option award	-	-	138,114	-	-	**138,114**
Current tax in respect of share-based payments	-	-	57,346	-	-	**57,346**
Deferred tax in respect of share-based payments	-	-	(67,981)	-	-	**(67,981)**
Loss for the year	-	-	-	-	(5,369,192)	**(5,369,192)**
At 31 March 2016	**5**	**14,810,193**	**14,285,069**	**-**	**(5,475,592)**	**23,619,675**
Shares issued in the year	1	442,836	-	-	-	**442,837**
Shares purchased by the employee benefit trust in the year	-	-	(250,569)	-	-	**(250,569)**
Reduction of capital	-	(14,860,182)	14,860,182	-	-	-
Share option award	-	-	105,023	-	-	**105,023**
Deferred tax in respect of share-based payments	-	-	(529,934)	-	-	**(529,934)**
Revaluation of investments	-	-	-	8,805,643	-	**8,805,643**
Loss for the year	-	-	-	-	(15,246,703)	**(15,246,703)**
At 31 March 2017	**6**	**392,847**	**28,469,771**	**8,805,643**	**(20,722,295)**	**16,945,972**

RETAIL MONEY MARKET LTD

Company statement of financial position as at 31 March 2017

	Note	2017 £	2016 £
Fixed assets			
Intangible assets	12	107,342	32,787
Property, plant and equipment	13	1,116,749	1,331,137
Investments at fair value	14	8,805,659	16
Investments in subsidiaries	15	264,308	264,307
		10,294,058	1,628,247
Non-current assets			
Deferred tax asset	17	1,522,509	2,014,591
		1,522,509	2,014,591
Current assets			
Trade and other receivables	16	3,259,841	6,401,070
Loans and other lending	18	-	1,275,000
Cash and cash equivalents		6,867,043	15,319,350
Restricted cash		-	1,514,901
		10,126,884	24,510,321
Total assets		**21,943,451**	**28,153,159**
Current liabilities			
Trade and other payables	19	(4,340,364)	(4,319,844)
Provisions	22	(234,322)	(118,857)
		(4,574,686)	(4,438,701)
Non-current liabilities			
Provisions	22	(422,793)	(94,783)
		(422,793)	(94,783)
Total liabilities		**(4,997,479)**	**(4,533,484)**
Net assets		**16,945,972**	**23,619,675**
Equity			
Share capital	23	6	5
Share premium		392,847	14,810,193
Other reserves		28,469,771	14,285,069
Revaluation reserve		8,805,643	-
Retained losses		(20,722,295)	(5,475,592)
Equity shareholders' funds		**16,945,972**	**23,619,675**

The Company's loss after tax for the year was £15,246,703 (2016: £5,369,192 loss).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 11 July 2017 by:

A R Lewis	**H J T Russell**
Director	Director

Registered Number: 07075792

1. Accounting policies

1.1 Basis of preparation of financial statements

The Group maintains its books and records in pound sterling ("£") and presents its annual financial statements in conformity with United Kingdom laws and regulations. The functional currency of the Group is also pound sterling on the basis that it is the pricing currency in which the transactions of the Group are conducted.

These annual financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board.

The financial statements have been prepared on a going concern basis under the historical cost convention except for certain financial assets that are carried at fair value.

Retail Money Market Ltd (the parent company incorporated and domiciled in United Kingdom) has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in the financial statements. The parent company's loss after tax for the year was £15,246,703 (2016: £5,369,192 loss).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions change. Management believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

1.2 Basis of consolidation

The Group's financial statements incorporate the financial statements of Retail Money Market Ltd and its subsidiaries (as disclosed in Note 15). Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

1.3 Changes in accounting policy and disclosures

(a) *New standards, amendments and interpretations issued but not effective for the financial period beginning 1 April 2017 and early adopted*

The following new and amended standards and interpretations have been issued and applied:

Standard/ interpretation	**Content**	**Applicable for the financial year beginning after**
IFRS 15	Revenue from contracts with customers	1 January 2018

Although adoption of the standard is only mandatory for financial years beginning after 1 January 2018, in view of its significance for the business activities in which the Group operates, the Group has decided to early adopt this standard during the current financial year and apply the standard retrospectively.

IFRS 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The application of IFRS 15 requires the Group to make judgments that affect the determination of the amount and timing of revenue from contracts with customers. These include:

- determining the timing of satisfaction of performance obligations;
- determining the transaction price allocated to them; and
- determining the stand-alone selling prices.

1. Accounting policies (continued)

Early adoption of the standard has resulted in the restatement of certain financial statement line items for the prior period as follows:

Impact on equity (increase/(decrease) in equity)

	31 March 2016 £
Deferred income	(1,246,364)
Short term provisions	820,270
Current liabilities	(426,094)
Net impact on equity	**(426,094)**

Impact on statement of comprehensive income ((increase)/decrease in loss before tax)

	31 March 2016 £
Revenue	(1,246,364)
Administrative expenses	820,270
Net impact on loss for the year	**(426,094)**

(b) New standards, amendments and interpretations issued but not effective for the financial period beginning 1 April 2017 and not early adopted

The following new and amended standards and interpretations have been issued but are not yet applicable and may have a material impact on the Group:

Standard/ interpretation	Content	Applicable for the financial year beginning after
IAS 16 and IAS 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation	1 January 2017
IFRS 9	Financial instruments: Classification and measurement	1 January 2018
IFRS 16	Leases	1 January 2019

The Group's assessment of the impact of these new standards and interpretations is set out below:

Amendments to IAS 16 and IAS 38, Clarification of acceptable methods of depreciation and amortisation

The amendments to IAS 16 clarify that a depreciation method based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amendments to IAS 38 introduce a rebuttable presumption that a revenue-based amortisation for intangible assets is not appropriate. There are limited circumstances where the presumption can be overcome:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

Currently the Group uses the straight-line method for depreciation of fixed assets and intangible assets. The directors of the Group believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Group do not anticipate that application of these amendments to IAS 16 and IAS 38 will have a material impact on the Group's financial statements.

1. Accounting policies (continued)

IFRS 9, Financial instruments: Classification and measurement

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009, amended in October 2010 and replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into three measurement categories; amortised cost, fair value through profit or loss, or fair value through other comprehensive income. The determination is made at initial recognition. The classification depends on the entity's business model objective for managing financial assets and the contractual cash flow characteristics of financial assets. Financial liabilities are required to be classified into two measurement categories: amortised cost or fair value through profit or loss. The standard also results in a single impairment model being applied to all financial instruments replacing the numerous impairment methods in IAS 39 that arise from different classification categories.

The Group is yet to assess the full impact of IFRS 9 and intends to adopt IFRS 9 no later than the accounting period beginning on 1 April 2018.

IFRS 16, Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group is yet to assess the full impact of IFRS 16 and intends to adopt IFRS 16 no later than the accounting period beginning on 1 April 2019.

1.4 Summary of significant accounting policies

Investments in subsidiaries, business combinations and goodwill

Subsidiary undertakings are all entities (including special purpose entities) over which the Group has power, exposure or rights to variable returns, and the ability to affect those returns through its power over the undertaking.

Subsidiary undertakings are recorded using the acquisition method of accounting and their results are included from the date of acquisition or incorporation. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at fair value as at the acquisition date. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Goodwill is initially measured at cost being the aggregate of the consideration transferred in excess of any net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Any impairment is recognised in the statement of comprehensive income.

The separable net assets, including property, plant and equipment and intangible assets, of the newly acquired subsidiary undertakings are incorporated into the consolidated financial statements on the basis of the fair value as at the effective date of control. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

1. Accounting policies (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, if market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement.

Level 1	Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement) at the end of each reporting period.

Credit performance fee recognition and deferred income

RateSetter provides credit management services to the Provision Fund for which it receives risk fees from borrowers. Upfront risk fees are received at the inception of the loan and recurring risk fees form part of the monthly repayment made over the life of the loan. At the inception of a cohort of loans, RateSetter calculate the total expected risk fees, being the sum of the upfront risk fee and the contractual recurring risk fees. A discount is applied to the recurring risk fees to reflect the probability of early repayments and default risk.

Over the life of the loan RateSetter expects that a portion of the risk fees will be utilised to compensate lenders for borrower defaults. The expected amount of utilisation is known as the Expected Loss. The Expected Loss methodology has been revised during the year, and this has been applied retrospectively to the prior year figures.

Using the total risk fees and the Expected Loss, the anticipated risk fee surplus, referred to as credit performance fees, is calculated. In line with IFRS 15, the credit performance fee is only recognised once the revenue is highly probable, which is deemed to be at the maturity of each loan cohort.

Deferred income on the statement of financial position represents: (i) risk fee surplus to be recognised as loan cohorts mature in the future and (ii) risk fees to be utilised as future borrower defaults are incurred.

1. Accounting policies (continued)

Financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale ("AFS") financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- AFS financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of comprehensive income. The Group has not designated any financial assets at fair value through profit or loss.

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at cost, less impairment. The losses arising from impairment are recognised in the statement of comprehensive income in administrative expenses. This category generally applies to trade and other receivables.

AFS financial assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in other comprehensive income and credited to the revaluation reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the revaluation reserve to the statement of comprehensive income in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income. This category applies to investments held at fair value by the Group.

1. Accounting policies (continued)

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to the statement of comprehensive income over the remaining life of the investment. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Loans and borrowings

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The Group has not designated any financial liability at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at cost. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised. This category generally applies to loans and borrowings.

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

At initial recognition, non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Subsequent measurement of non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange differences arising on re-translation are recognised in the statement of comprehensive income.

1. Accounting policies (continued)

1.5 Summary of accounting policies

Revenue

Revenue comprises fees earned from financial intermediary services provided (exclusive of Value Added Tax and trade discounts) and credit performance fees. Upfront loan arrangement fees are recognised on the formation of each loan agreement and management fees for on-going services provided are recognised on an accruals basis throughout the life of the loan. The revenue recognition of credit performance fees is detailed in the credit performance fee recognition and deferred income policy in Note 1.4.

Cost of sales

Cost of sales comprise the credit, data and payment costs of providing loans to customers. All amounts are recognised on an accruals basis.

Administrative expenses

Administrative expenses comprise office costs, staff salaries, marketing, professional costs, depreciation of assets and other costs. All amounts are recognised on an accruals basis.

Interest receivable and dividend income

Interest receivable and dividend income include interest receivable from cash held on deposit and dividends receivable from investments. All amounts are recognised on an accruals basis.

Interest payable

Interest payable is the interest arising on loans and borrowings. All amounts are recognised on an accruals basis.

Taxation

The tax expense comprises current and deferred tax. Current tax is recognised in the statement of comprehensive income and is provided at the amount expected to be paid (or recovered) applying tax rates and laws enacted or substantively enacted at the end of the reporting period. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Deferred tax is provided in full, using a temporary difference approach, and is the tax expected to be payable or recoverable on temporary differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be utilised.

Deferred tax assets and liabilities are not discounted.

Intangible assets

Intangible assets have been recognised at cost and are tested for impairment annually. Assets are deemed to have finite useful lives and are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

1. Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation. Depreciation is calculated on a straight-line basis over the useful economic life of the assets, as follows:

Fixtures and fittings	3 years
Office equipment	3 years
Leasehold improvements	The term of the lease
Advertising hardware	5 years

Cash and cash equivalents

Cash and cash equivalents comprises short-term deposits with banks and other financial institutions, with an initial maturity of three months or less.

Restricted assets

Restricted assets represent the capital held by the Group to compensate lenders against the potential risk of borrower default and the Group has committed to make this capital available to lenders in the event of a borrower defaulting. The assets are held in the form of cash (as disclosed in the consolidated statement of financial position) and investments (as disclosed in Note 14).

Provision for onerous contracts

The Group absorbs a negative service rate on some fixed price loans where the lender cost of money is greater than what the borrower is paying. This negative service rate can be either locked-in for the term or might only be temporary. For these loan contracts, a provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. This is measured at the cost of fulfilling the contract on a loan by loan basis and applying a discount factor to recognise any early repayments or defaults.

Share-based payments

The Group issues equity-settled share-based payments to certain employees in the form of share options and free shares. The cost of equity-settled transactions is determined by the fair value at the date when the award is made using an appropriate valuation model. The Group measures the fair value of share options using the Black-Scholes-Merton options pricing model.

The cost is recognised as an employee benefit expense within administrative expenses, together with a corresponding increase in equity (other reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term. The value of any lease incentive received (e.g. a rent-free period) is recognised as deferred income and is released over the life of the lease.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication of an impairment exists the Group estimates the asset's recoverable amount, being the higher of fair value less costs of disposal and its value in use. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

2. Significant accounting judgements, estimates and assumptions

Estimation of Expected Loss

The Expected Loss for the loan portfolio at the year end is calculated by making assumptions regarding Probability of Default and Loss Given Default across all loan cohorts. These assumptions are set by making reference to credit score, loan size, APR and early stage delinquency trends for the loan cohorts.

Measurement of provision for onerous contracts

The Group exercises judgement in measuring and recognising provisions related to contracts that have a negative service rate. An estimation technique is required to be adopted in assessing the likelihood that a liability will arise, and to quantify the possible range of the financial settlement. Due to the inherent uncertainty in this evaluation process, actual losses may be different from the originally estimated provision.

Valuation of share-based payments

Estimating the fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the award. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and the dividend yield and making assumptions about them. The Group uses a Black-Scholes-Merton options pricing model for the employee EMI share option scheme. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24.

Recognition of deferred tax asset

Using the latest three-year forecast, significant management judgement is required to determine the value of the deferred tax asset to be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

3. Financial risk management

Capital policy

The Group's objective when managing capital is to safeguard its ability to continue as a going concern, to provide optimal returns for shareholders, to maintain an efficient capital structure to reduce the cost of capital and to meet the minimum FCA regulatory capital requirements.

The Group has assessed the ability to meet its capital requirements as part of the Group's risk management procedures. The Group considers its capital to comprise its ordinary share capital, share premium and other capital reserves less its accumulated retained losses.

No changes were made in the objectives, policies or processes for managing capital during the year.

Principal financial risks

The principal financial risks faced by the Group are credit risk, liquidity risk and market risk (including price, interest rate and foreign exchange risk). The policies and strategies for managing these risks are summarised on the following pages.

Credit risk

The risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk from its operating activities (primarily from the Group's receivables from counterparties) and from its financing activities, including cash equivalents held at banks.

3. Financial risk management (continued)

The Group's maximum exposure to credit risk by class of financial asset is as follows:

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Current assets				
Trade receivables	137,484	412,944	76,808	412,944
Loans held at amortised cost	-	1,275,000	-	1,275,000
Accrued income	1,394,293	1,225,383	1,394,293	1,218,883
Other receivables	551,088	4,524,610	504,136	4,524,610
Amounts due from group undertakings	-	-	1,037,194	-
Cash and cash equivalents	6,925,335	15,394,441	6,867,043	15,319,350
Restricted cash	11,327,768	6,946,504	-	1,514,901
	20,335,968	**29,778,882**	**9,879,474**	**24,265,688**

Trade receivables, loans held at amortised cost and accrued income are subject to the credit risk of borrower and/or counterparty default. The Group assesses and monitors the credit risk associated with borrowers and other counterparties and incorporates this information into its credit risk controls. All loans are subject to strict lending and affordability criteria and the Group's policy is to deal only with creditworthy counterparties.

Other receivables comprises pre-funding of lender accounts for receipts not yet settled into the RateSetter Client Money account. Credit risk is mitigated as this cash is held with reputable institutions, which are credit assessed regularly.

Cash and cash equivalents and restricted assets are held with reputable institutions, which are credit assessed regularly.

Liquidity risk

The risk that the Group could be unable to settle or meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's position.

The Group's liquidity position is monitored and reviewed on an ongoing basis by the directors. The Group's liquidity is not significantly impacted by any borrower default risk as the Group acts as an agent facilitating and administrating the loans and the capital requirement to compensate lenders is limited to the amount held as restricted assets in the financial statements (being the Provision Fund).

The amounts disclosed in the below table are the contractual undiscounted cash flows.

The maturity analysis of the financial instruments held by the Group and the Company at 31 March 2017 and 31 March 2016 is shown in the table below. With the exception of the loans and borrowings, these balances are repayable on demand at the value shown in the financial statements.

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Current liabilities				
Trade payables	1,469,519	1,074,162	1,320,540	1,074,162
Other payables	333,119	197,567	335,143	1,712,468
Short term loans and borrowings	2,265,317	-	-	-
Non-current liabilities				
Long term loans and borrowings	8,568,489	-	-	-
	12,636,444	**1,271,729**	**1,655,683**	**2,786,630**

3. Financial risk management (continued)

Market risk

The risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: price risk, interest rate risk and foreign exchange risk. Financial instruments affected by market risk include deposits and AFS investments.

a) Price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and by placing limits on individual and total equity instruments.

At the reporting date the exposure to listed equity securities at fair value was £3.47m, a 10% decrease in market prices could have an impact of approximately £347k (2016: £nil) on the income or equity attributable to the Group.

At the reporting date, the exposure to unlisted equity securities at fair value was £8.81m, a 10% decrease in market prices could have an impact of approximately £881k (2016: £nil) on the income or equity attributable to the Group.

b) Interest rate risk

The Group's exposure to variable interest rate risk of £18.3m is associated with cash and cash equivalents. Fluctuations in interest rates can affect interest income and expense through financial assets and liabilities with variable interest rates which can also impact the fair value of financial assets and liabilities with a fixed interest rate. The Group's loans and borrowings have fixed interest rates and are not exposed to cash flow interest rate risk. The Group does not use interest rate swaps to hedge the fair value or cash flow interest rate risk. At the reporting date, a 0.5% change in the interest rate could have an impact of approximately £91k (2016: £112k) on the income or equity attributable to the Group.

In addition, the Group is exposed to movement in the rolling market rate. A 1% increase in the rolling market rate would result in a £699k increase in the provision for onerous contracts.

c) Foreign exchange risk

Both the functional and reporting currency of the Group is pound sterling. The Group has exposure to equity investments held in Australian dollars of $14.4m. The Group's exposure to all other currencies is deemed immaterial. At the reporting date, a 5% change in the GBP/AUD foreign exchange rate could have an impact of approximately £440k (2016: £nil) on the income or equity attributable to the Group. The Group does not hedge the foreign exchange rate risk.

The Group's risk to changes in the market is monitored and reviewed on an ongoing basis by the directors.

4. Segmental analysis

The Group's operations are carried out solely in the United Kingdom and the results and net assets of the Group are derived primarily from its principal activity.

5. Operating loss

The operating loss is stated after charging:

	2017 £	2016 £
Depreciation of property, plant and equipment	693,493	177,743
Amortisation of intangible fixed assets	17,947	-
Auditors' remuneration – Company	84,000	56,430
Auditors' remuneration – Subsidiaries	35,700	19,200
Auditors' remuneration – Non-audit services	-	15,000
Write-off of fixed assets	312	81,813

6. Directors' remuneration

	2017 £	2016 £
Short-term employee benefits	787,545	612,702
Post-employment benefits	2,930	-
Share-based payments	16,887	36,531
	807,362	**649,233**

The number of directors accruing post-employment benefits during the year was 3 (2016: nil). The Directors are the only members of management that meet the definition of key management personnel.

Remuneration payable to the highest paid director of the Company during the year was as follows:

	2017 £	2016 £
Short-term employee benefits	229,618	186,966
Post-employment benefits	1,188	-
Share-based payments	-	-
	230,806	**186,966**

7. Employees

The average number of employees (including key management personnel) of the Group during the year was:

	2017	2016
IT	41	27
Central functions	51	39
Operational	95	52
	187	**118**

Employment costs (including key management personnel) of the Group during the year were:

	2017 £	2016 £
Wages and salaries	10,737,257	6,161,945
Social security costs	1,246,729	685,531
Post-employment benefits	50,666	-
	12,034,652	**6,847,476**

8. Interest receivable and dividend income

	2017 £	2016 £
Dividend income	-	78,996
Interest on lending	94,889	110,500
Interest on bank deposits	31,990	52,981
	126,879	**242,477**

9. Interest payable

	2017	2016
	£	£
Interest payable on loans and borrowings	395,725	-
	395,725	**-**

10. Acquisition of subsidiary

On 29 July 2016, Security Trustee Services Limited, a subsidiary of the Group, acquired Adpod Limited, an unlisted company based in the United Kingdom. As at 31 March 2017, Adpod Limited had three wholly-owned subsidiaries, as detailed in Note 15.

The fair values of the identifiable assets and liabilities of Adpod Limited and its subsidiaries at the date of acquisition were:

	Fair value on acquisition
	£
Assets	
Property, plant and equipment	1,446,912
Trade and other receivables	35,081
Cash and cash equivalents	8,276
	1,490,269
Liabilities	
Trade and other payables	(399,291)
Loans and borrowings	(14,901,560)
	(15,300,851)
Total identifiable net liabilities at fair value	**(13,810,582)**
Goodwill arising on acquisition	13,810,582
Purchase consideration	-

The goodwill recognised on acquisition has been assessed for impairment and following this review has been fully impaired.

11. Income tax credit

The standard UK corporation tax rate was 20% for the period (20% for the period ended 31 March 2016).

	2017	2016
	£	£
Current tax		
Current tax for the period	-	57,346
Adjustment in respect of previous years	-	(67)
	-	57,279
Deferred tax		
Origination and reversal of temporary differences	(53,439)	(927,512)
Adjustment in respect of previous years	15,587	2,093
	(37,852)	(925,419)
Total tax credit	**(37,852)**	**(868,140)**

Factors affecting the tax credit for the period:
The income statement tax credit for the period differs from the standard rate of corporation tax in the UK of 20% (2016: 20%) as explained below.

	2017	2016
Loss before tax	(23,265,015)	(5,315,753)
Tax credit at average corporation tax of 20% (2016: 20%)	(4,653,003)	(1,063,151)
Effects of:		
Loss on disposal of property, plant and equipment	-	16,363
Expenses not deductible	169,513	46,983
Losses on which deferred tax is not recognised	2,386,437	-
Impairment of goodwill on acquisition	2,762,116	-
Utilisation of previously unrecognised tax losses	-	(3,793)
Share-based payments permanent adjustments	(593,388)	(1,301)
Non-taxable dividend income	-	(15,799)
Adjustment in respect of change in accounting policy	(85,219)	85,219
Adjustment arising from change in tax rate	(39,895)	65,313
Adjustment in respect of prior periods	15,587	2,026
Total tax credit	**(37,852)**	**(868,140)**

The Group has unrecognised temporary differences of £11.9m above the amount recognised in the financial statements, arising on gross tax losses. The net unrecognised deferred tax asset is £2.0m calculated at 17%, which is the enacted corporation tax rate effective 1 April 2020. The carried forward tax losses are available to be carried forward indefinitely.

The Company has unrecognised temporary differences of £17.7m (£3.0m at 17%) above the amounts recognised in the financial statements, arising on gross tax losses of £10.5m and a general provision of £7.2m.

12. Intangible assets

Group and Company	Intellectual property	Software licences	Total
	£	£	£
Cost			
At 1 April 2016	1,587	31,200	32,787
Additions	16,902	75,600	92,502
At 31 March 2017	18,489	106,800	125,289
Amortisation			
At 1 April 2016	-	-	-
Charge for the year	6,233	11,714	17,947
At 31 March 2017	6,233	11,714	17,947
Net book value			
At 31 March 2017	12,256	95,086	107,342
At 31 March 2016	1,587	31,200	32,787

Intellectual property comprises the costs associated with acquiring trademarks and patents and software licences relates to externally built bespoke software.

13. Property, plant and equipment

					Group
	Leasehold improvement £	Office equipment £	Fixtures and fittings £	Advertising hardware £	Total £
Cost					
At 1 April 2015	-	215,270	148,287	-	363,557
Additions	1,007,495	209,422	117,988	-	1,334,905
Disposals	-	(119,526)	-	-	(119,526)
At 31 March 2016	1,007,495	305,166	266,275	-	**1,578,936**
Additions	-	155,456	41,787	-	197,243
Additions on acquisition	-	1,989	-	1,444,923	1,446,912
Disposals	-	(312)	-	-	(312)
At 31 March 2017	1,007,495	462,299	308,062	1,444,923	**3,222,779**
Depreciation					
At 1 April 2015	-	65,598	42,171	-	107,769
Charge for the year	67,166	52,645	57,932	-	177,743
Elimination on disposals	-	(37,713)	-	-	(37,713)
At 31 March 2016	67,166	80,530	100,103	-	**247,799**
Charge for the year	201,499	123,031	86,789	282,174	693,493
Elimination on disposals	-	-	-	-	-
At 31 March 2017	268,665	203,561	186,892	282,174	**941,292**
Net book value					
At 31 March 2017	738,830	258,738	121,170	1,162,749	**2,281,487**
At 31 March 2016	940,329	224,636	166,172	-	**1,331,137**

13. Property, plant and equipment (continued)

Company

	Leasehold improvement £	Office equipment £	Fixtures and fittings £	Total £
Cost				
At 1 April 2015	-	215,270	148,287	363,557
Additions	1,007,495	209,422	117,988	1,334,905
Disposals	-	(119,526)	-	(119,526)
At 31 March 2016	1,007,495	305,166	266,275	**1,578,936**
Additions	-	155,456	41,787	197,243
Disposals	-	(312)	-	(312)
At 31 March 2017	1,007,495	460,310	308,062	**1,775,867**
Depreciation				
At 1 April 2015	-	65,598	42,171	107,769
Charge for the year	67,166	52,645	57,932	177,743
Elimination on disposals	-	(37,713)	-	(37,713)
At 31 March 2016	67,166	80,530	100,103	**247,799**
Charge for the year	201,499	123,031	86,789	411,319
Elimination on disposals	-	-	-	-
At 31 March 2017	268,665	203,561	186,892	**659,118**
Net book value				
At 31 March 2017	738,830	256,749	121,170	**1,116,749**
At 31 March 2016	940,329	224,636	166,172	**1,331,137**

14. Investments held at fair value

The following table provides the fair value measurement hierarchy of the Group's investments. The valuation date for all investments was 31 March 2017.

		Investment hierarchy		
	Total	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	£	**£**	**£**	**£**
Assets measured at fair value:				
Equities	9,362,030	556,371	-	8,805,659
Fixed income & fixed income equivalents	2,911,770	2,911,770	-	-
	12,273,800	**3,468,141**	**-**	**8,805,659**

Investments held at fair value are represented on the Group and Company statement of financial position as follows:

	Group	**Company**
	£	**£**
Carrying value at 1 April 2016	16	16
Additions	3,354,210	-
Revaluation of level 1 investments	113,931	-
Revaluation of level 3 investments	8,805,643	8,805,643
Carrying value at 31 March 2017	**12,273,800**	**8,805,659**

The revaluation of level 1 and level 3 investments, £8,919,574 (2016: £nil) is taken through other comprehensive income within the consolidated statement of comprehensive income on page 13.

Level 1 investments represent two investment portfolios managed by third parties. The investments form part of the Group's restricted assets and represent part of the Provision Fund that is held to compensate lenders in the event of borrower default.

Level 3 investments represent the Company's investment in RateSetter Australia Pty Limited. In the previous financial years, the Company was unable to obtain an appropriate fair value of the investment and so the asset was recognised at cost. Following RateSetter Australia Pty Limited's fund raise during the current financial year, a suitable method to calculate the fair value was achievable through the use of the share price obtained during the fund raise.

15. Investments in subsidiaries

	Company
	£
Carrying value at 1 April 2016	264,307
Additions	1
Carrying value at 31 March 2017	**264,308**

15. Investments in subsidiaries (continued)

The consolidated financial statements of the Group include the following UK incorporated entities. All companies share the same registered address, 55 Bishopsgate, London, EC2N 3AS.

		% equity interest	
Name	**Principal activity**	**2017**	**2016**
RateSetter Trustee Services Limited	Marketplace lending	100	100
RateSetter Asset Management Limited	Dormant	100	-
Security Trustee Services Limited	Dormant	100	100
Adpod Limited	Digital media	100	-
Adpod Media Ltd	Dormant	100	-
DMNB Limited	Digital media	100	-
POQ Media Ltd	Dormant	100	-

16. Trade and other receivables

The carrying value of the balances shown below are deemed to equate to fair value.

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£	**£**	**£**	**£**
Current assets:				
Trade receivables	137,484	412,944	76,808	412,944
Prepayments	247,410	244,633	247,410	244,633
Accrued income	1,394,293	1,225,383	1,394,293	1,218,883
Other receivables	551,088	4,524,610	504,136	4,524,610
Amounts due from group undertakings	-	-	1,037,194	-
	2,330,275	**6,407,570**	**3,259,841**	**6,401,070**

17. Deferred taxation

	2017	**2016**
	£	**£**
Balance at 1 April	2,014,591	1,157,153
Timing differences on assets	49,793	(54,836)
Tax losses arising in the year	(36,246)	961,325
Share-based payments	(505,629)	(49,051)
Balance at 31 March	**1,522,509**	**2,014,591**
The deferred tax asset is made up as follows:		
Timing differences on assets	(51,358)	(101,151)
Tax losses	1,262,548	1,298,794
Share-based payments	311,319	816,948
	1,522,509	**2,014,591**

The Group has a deferred tax asset of £2.1m above the amount recognised in the financial statements, arising on taxable losses of £10.5m. The Company has a deferred tax asset of £3.5m above the amount recognised in the financial statements, arising on taxable losses of £17.7m.

18. Loans and other lending

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Current assets:				
Intra-group loan	-	-	7,225,022	-
Intra-group loan impairment	-	-	(7,225,022)	-
Loans held at amortised cost	-	1,275,000	-	1,275,000
	-	**1,275,000**	**-**	**1,275,000**

Following an assessment of the intra-group loan, due from Adpod Limited to the parent company, the loan has been fully provided for. Loans held at amortised cost were fully repaid by the counterparties during the year.

19. Trade and other payables

The carrying value of the balances shown below are deemed to equate to fair value.

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Current liabilities:				
Trade payables	1,469,519	1,074,162	1,320,540	1,074,162
Accruals	2,092,381	1,385,269	2,290,716	1,255,983
Other tax and social security	300,355	277,231	393,965	277,231
Other payables	333,119	197,567	335,143	1,712,468
	4,195,374	**2,934,229**	**4,340,364**	**4,319,844**

20. Deferred income and credit loss provision

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Deferred income and credit loss provision	13,265,162	6,567,985	-	-
	13,265,162	**6,567,985**	**-**	**-**

21. Loans and borrowings

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Current liabilities:				
Loans and borrowings	1,793,365	-	-	-
Non-current liabilities:				
Loans and borrowings	7,711,540	-	-	-
	9,504,905	**-**	**-**	**-**

Loans and borrowings include an outstanding loan balance of £9.0m held by Adpod Limited. At the point of acquisition of Adpod Limited, the loan balance was £14.4m. Since acquisition the Group has re-paid £5.4m of this debt and the balance of £9.0m is amortising on a monthly basis. The interest rate payable is 6.00% and the final repayment is due in October 2021. Capital of £1.8m is repayable within the next financial year. The loan is secured over the fixed assets in Adpod Limited and a charge over Adpod Limited.

22. Provisions

	Group and Company	
	Current	Non-current
	Onerous contract provision	Onerous contract provision
	£	£
At 1 April 2016	118,857	94,783
Arising during the year	115,465	328,010
At 31 March 2017	**234,322**	**422,793**

The onerous contract provision of £657,115 is split between loans with a negative service rate that is locked-in for the term of the loan (£191,036) and loans with a variable service rate that were negative as at 31 March 2017 (£466,079).

23. Share capital

	2017	2017	2016	2016
	No.	£	No.	£
Allotted, called up and fully paid:				
A Ordinary shares of £0.000001 each	5,320,425	6	5,190,675	5
B Ordinary shares of £0.000001 each	214,327	-	-	-
		6		**5**

At 31 March 2017 639,690 A Ordinary shares of the Company (2016: 631,090) were held by an independently managed employee benefit trust ("Trust"). The shares held are subject to an agreement between the Trust and the employees that on sale of the shares the employees will be entitled to the sales proceeds to the extent that they are in excess of an agreed value. The Trust also holds 214,327 B Ordinary shares (2016: nil). The total consideration paid for the A and B Ordinary shares purchased by the Trust during the year was £250,569 (2016: £219,577).

24. Share-based payments

EMI Options

In prior years, the Group has awarded share options to employees under the EMI options scheme. The options carry a vesting condition based upon duration of employment service ranging from one to three years from the award date. At 31 March 2017 options were held by a total of 42 employees to subscribe for A Ordinary shares in the Company. The last award of options under this scheme was in May 2015 and the weighted average fair value of options awarded during the year was £nil (2016: £18.11). The weighted average remaining contractual life of the options is 82 months (2016: 74 months).

The following table illustrates the number and weighted average exercise prices of, and movements in, EMI share options during the year.

	2017 No.	2017 WAEP	2016 No.	2016 WAEP
Outstanding at 1 April	252,973	£5.88	253,124	£5.24
Awarded during the year	-	-	17,644	£16.29
Forfeited during the year	(4,997)	£20.48	(3,614)	£6.58
Exercised during the year	(122,947)	£3.43	(14,181)	£7.27
Expired during the year	-	-	-	-
Outstanding at 31 March	**125,029**	**£7.68**	**252,973**	**£5.88**

The fair value of the EMI share options awarded is estimated at the date of award using a Black-Scholes-Merton options pricing model, considering the terms and conditions on which the options were awarded. The following table lists the inputs to the Black-Scholes-Merton model used when valuing the options awarded in each financial year.

	2017	2016
Weighted average market value at the award date (£)	-	29.11
Expected volatility (%)	-	19.99
Risk-free interest rate (%)	-	1.95
Expected life of options (years)	-	10
Weighted average exercise price (£)	-	16.29
Expected dividends	-	None

The expected life of the share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome. Expected volatility was determined by calculating the average volatility of a basket of five quoted companies with similar trading activities over the 30 days leading up to and including the award date.

Growth shares

Growth shares represent an award of non-voting B Ordinary shares in the Company where the ability to receive a capital return is conditional on the growth of the Company's value above a pre-defined threshold. Once the threshold is surpassed the B Ordinary shareholders are entitled to participate in any capital appreciation above the threshold. During the year 259,537 growth shares were awarded to employees. Growth shares are bought back by the Group, at cost, if an employee leaves the Group within three years of the award date. At 31 March 2017 214,327 growth shares were still in issue and held by the Trust on behalf of employees.

Share Incentive Plan

Free shares have been awarded, at management's discretion, to employees through an HMRC approved Share Incentive Plan (SIP). During the year 6,803 A Ordinary shares were awarded to employees through the SIP. Free shares are forfeited by employees leaving the Group within three years of the award date. At 31 March 2017 6,295 shares remained in the SIP and were held on behalf of employees by an independently managed trust.

The total expense recognised for share-based payments during the year is £105,023 (2016: £138,114).

25. Notes to the statement of cash flows

Cash generated from operations

	2017 £	2016 £
Loss for the year before tax	(23,265,015)	(5,315,753)
Depreciation of property, plant and equipment	693,493	177,743
Amortisation of intangible assets	17,947	-
Write-off of property, plant and equipment	312	81,813
Impairment of goodwill	13,810,582	-
Share-based payment transaction expense	105,023	138,114
Interest and dividends received	(126,879)	(242,477)
Interest paid	395,725	-
Foreign exchange (gains) on investments	-	(1)
Movement in receivables	4,077,295	(5,179,280)
Movement in payables and deferred income	7,958,322	7,885,654
Movement in provisions	443,475	213,640
Working capital on acquisition	(364,210)	-
Corporation tax adjustment in respect of prior periods	-	67
Balance at 31 March	**3,746,070**	**(2,240,480)**

Cash and cash equivalents

	2017 £	2016 £
Cash and bank balances	6,925,335	15,394,441
Restricted cash	11,327,768	6,946,504
Balance at 31 March	**18,253,103**	**22,340,945**

Cash and cash equivalents and restricted cash comprise cash and short-term bank deposits. The carrying value of the balances shown above are deemed to equate to fair value.

Analysis of changes in net debt

	At 1 April 2016 £	Non-cash movements £	Cash flow £	At 31 March 2017 £
Cash and bank balances	15,394,441	-	(8,469,106)	6,925,335
Restricted cash	6,946,504	-	4,381,264	11,327,768
Loans and borrowings	-	(14,901,560)	5,396,655	(9,504,905)
	22,340,945	**(14,901,560)**	**1,308,813**	**8,748,198**

26. Related party transactions

During the year, the parent company charged loan interest of £13,597 (2016: £28,628) to the RateSetter Provision Fund Trust, an affiliated entity of the Company. The amount due from the RateSetter Provision Fund Trust at the year end was £nil (2016: £502,291).

During the year, RateSetter Trustee Services Limited received management fees from the RateSetter Provision Fund Trust, totalling £32,500 (2016: £75,000).

During the year, the parent company received fee revenue of £31,955 (2016: £6,980) from RateSetter Australia Pty Limited, an affiliated entity. A gain on the valuation of the parent company's investment in RateSetter Australia Pty Limited of £8,805,643 (2016: £nil) was recognised through other comprehensive income.

27. Operating lease commitments

The Group and Company had annual commitments under non-cancellable operating leases as follows:

	Group		Company	
	2017	2016	2017	2016
	£	£	£	£
Expiry date:				
Less than 1 year	164,993	530,486	107,267	530,486
Between 1 and 5 years	3,601,615	3,495,594	3,388,327	3,495,594
Over 5 years	6,977	-	-	-
Outstanding at 31 March	**3,773,585**	**4,026,080**	**3,495,594**	**4,026,080**

28. Contingent liabilities

There are no contingent liabilities as at 31 March 2017 (2016: £nil).

29. Corporate information

The Company's registered address is 55 Bishopsgate, London, EC2N 3AS. The nature of the Company's operations and primary activities are set out in the Strategic Report.