

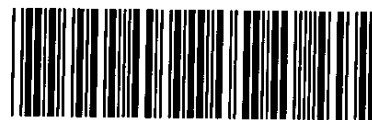
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RETAIL MONEY MARKET LTD

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

YEAR-ENDED 31 MARCH 2020

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COMPANIES HOUSE

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Company Information

Directors

Paul Manduca

(Chairman and Non-executive director)

Stuart Bridges

(Non-executive director)

Ian Boyce

(Non-executive director)

Martyn Scrivens

(Non-executive director)

Rhydian Lewis

(Chief Executive Officer)

Peter Behrens

(Chief Commercial Officer)

Harry Russell

(Chief Financial Officer)

Registered Office

RateSetter is a trading name of Retail Money Market Ltd (Company No. 07075792), a company registered at:

6th Floor
55 Bishopsgate
London
EC2N 3AS

Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

RateSetter: an overview

RateSetter is one of the UK's most popular peer-to-peer lending platforms and has focused on making peer-to-peer lending simple and widely accessible

This section contains an overview of the Group's activities and strategy prior to its acquisition by Metro Bank Plc ("Metro Bank"). Detail of the Group's revised strategy post-acquisition is outlined in the Directors' Report.

Our business

RateSetter's investor products are designed to sit between the safety of a cash deposit and the volatility of an equity investment. Since we began in 2010 over 80,000 investors have invested via the RateSetter platform and earned interest in excess of £175m.

On the borrower side RateSetter competes in traditional and deep markets. To date our platform has enabled over £4 billion of lending to consumer and commercial borrowers.

Our core income comes from fees charged to borrowers, comprising upfront loan origination fees and ongoing loan management fees.

Our customers

We have sought a diversified customer base of both investors and borrowers.

RateSetter has primarily facilitated investment from individuals but also from institutions. In 2018 we focussed on individual investors with the objective of becoming the leading provider of the nascent Innovative Finance ISA, a goal that was achieved during that year. This year we began to explore reintroducing institutional investment to provide diversification of funding.

Our borrowers are a mix of creditworthy individuals and businesses. This year, we have focussed on unsecured personal loans, secured residential property development finance and secured asset finance facilities for car dealerships. Diversification of borrowers is a strength because it lowers concentration risk and widens our addressable market.

Our Provision Fund

RateSetter's Provision Fund, which diversifies all investors' exposure across the whole loan portfolio, underpins our track record of delivering returns to investors.

RateSetter manages its investors' exposure to credit risk in two ways. Firstly, RateSetter performs the initial credit assessment to only approve creditworthy borrowers (in line with the Group's risk appetite) and then manages the loans throughout their term, including repayment and recovery.

Secondly, RateSetter manages a Provision Fund. The Provision Fund provides an efficient form of credit risk diversification as all investors are covered by the Provision Fund and, as such, their risk is based on the performance of the whole loan portfolio as opposed to their individual loans.

The Provision Fund provides protection limited to the value of the assets held in the Provision Fund at any point in time. If assets in the Provision Fund are insufficient to cover losses, investors are exposed to a loss of interest and potentially a loss of capital.

The track record of the Provision Fund is such that, to date, individual investors have always received their capital in full; however, it is not a guarantee and investors are not covered by the Financial Services Compensation Scheme.

The strength of the Provision Fund is expressed by two “Coverage Ratios”, the Interest Coverage Ratio (the Provision Fund as a percentage of Future Expected Credit Losses) and the Capital Coverage Ratio (the Provision Fund plus Future Investor Interest, as a percentage of Future Expected Credit Losses).

- The size of the Provision Fund is its current assets (as shown in Note 30) plus its future contracted income to be received from borrowers (discounted to account for income that may not ultimately be received due to early repayment or non-payment).
- The Future Expected Credit Losses are calculated on a lifetime basis, which is more prudent than the IFRS 9 standard approach. Similar to IFRS 9, our Future Expected Credit Losses include a forward-looking overlay based upon economic forecasts sourced from third-party specialists. The assumptions underpinning the calculation of the Future Expected Credit Losses are reviewed quarterly.

Performance: Year to March 2020

Loans under management decreased in H2 as the industry absorbed strengthened regulation but margins improved, allowing growth in gross profit

Key events during the year

During the year we continued to invest in our products, technology and people. We achieved a number of successes and passed several key milestones, including:

- Winner of *The Queen's Award for Enterprise: Innovation 2019*.
- Passing £3 billion in cumulative lending.
- Launching new investor products (Access, Plus and Max).
- Enhanced FCA regulation took effect from 9 December 2019, a positive industry development.

Platform performance

- Originations: during the year totalled £734m (2019: £771m).
- Loans under management: at year-end totalled £831m (2019: £855m), with the average loans under management higher than the previous year.
- Credit performance: remained within expectations and at year-end the projected lifetime loss rate was 3.95%, matching the expected rate at origination.
- Investor returns: at year-end the average interest rate earned by our investors since inception was 4.3%. Post year-end, RateSetter implemented a Stabilisation Period, as set-out in the Investor Terms, during which investor interest is temporarily reduced and diverted to the Provision Fund, for the protection of all investors (see *Significant events arising since year-end* section of Directors' report).
- Investor liquidity: during the year the average time to exit investments was one business day. Due to the impact of COVID-19 in March 2020, this time has subsequently increased (see *Significant events arising since year-end* section of Directors' report).

Financial performance

Statement of comprehensive income

- Loss Before Tax increased to £8.6m (2019: £8.3m). The movement was driven by an increase in overheads, partly offset by an improvement in gross profit.
- Core income of £29.3m (2019: £29.7m) decreased, however gross profit increased to £19.5m (2019: £18.9m) driven by improved loan management fee margins, following the launch of the new investor products, and lower introducer commissions.
- Administrative expenses increased to £27.6m (2019: £27.1m), driven by further investment in our technology and people, and some additional costs as new regulations were introduced.

Statement of financial position

- At year-end the Group had net liabilities of £4.5m (2019: net assets of £4.8m).
- Unrestricted cash held at year-end was £6.0m (2019: £18.9m).

- The investment in Plenti Group Limited of £12.2m, formerly RateSetter Australia Pty Limited, remained constant, save a devaluation from the movement in the GBP / AUD exchange rate (2019: £13.3m). Post year-end the investment was transferred to shareholders at the time of acquisition by Metro Bank.
- Loans & borrowings were £22.6m at year-end (2019: £28.6m). The Group's debt was re-termed during the year with a revised final repayment date of August 2024. The debt continues to amortise monthly.
- The Group held provisions of £4.5m at year-end (2019: £3.4m). The majority of this balance is a provision for onerous contracts, being loans with a negative margin.

Provision Fund

- At year-end the Provision Fund held restricted assets of £5.8m (2019: £13.2m) primarily in the form of cash. Its size, including discounted future income, was £28.8m. The split between cash and future income varies depending on the size of the loan portfolio, the mix of credit quality across loan cohorts and the relative maturity of those cohorts.
- At year-end the Interest Coverage Ratio was 74% (2019: 113%) and the Capital Coverage Ratio was 166% (2019: 226%). The decrease in the Coverage Ratios occurred as RateSetter materially increased its Future Expected Credit Losses in light of the deterioration in the UK's economic outlook due to COVID-19. In May 2020 a temporary interest reduction for all investors was announced with the aim of restoring the Interest Coverage Ratio to 100%.

Financial resources requirement

- Retail Money Market Ltd continued to meet its FCA financial resources requirement throughout the year.

Risk Management & Governance

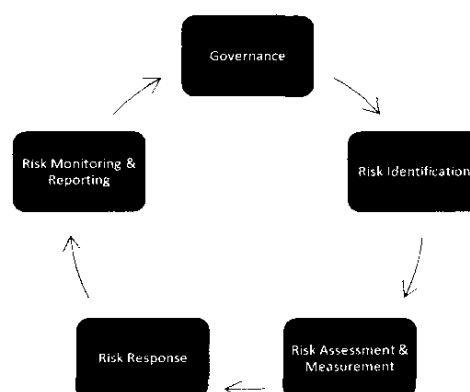
Risk management lies at the centre of our business and we recognise the importance of its effectiveness. The Group has developed a strong risk management framework.

Enterprise Risk Management (“ERM”) Framework

Our ERM Framework provides the overarching requirements and outlines the necessary governance for a risk management framework to identify, measure, manage, monitor and report risks effectively within the organisation in line with the defined risk appetite. The ERM Framework follows a cycle model with the components, as outlined below, designed to ensure the business view of risk is not static.

The following principles guide the Group’s overall approach to risk management:

- Risk management is structured around the defined Principal Risk categories.
- The Group manages risks within the risk appetite as set by the Board.
- The Group has established a robust Risk Appetite Framework, using an approved set of metrics to monitor risks against appetite, and reports to senior management at least monthly.



Risk Governance and Oversight

The Board Risk Committee, which has a non-executive director as chair, is the primary committee to oversee risk and provide assurance and recommendations to the Board in respect of the Group’s risks and risk management. Effective risk management is achieved through a three lines of defence model.

- The first line of defence is the individual business units and service functions that are responsible for identifying and managing risk within their business area.
- The second line of defence is the Risk and Compliance functions, who provide oversight of risks and controls, agree applicable company frameworks and policies, provide required tools and guidance, and independently challenge the first line of defence.
- The third line of defence is the Internal Audit function who provide independent assurance over the first and second lines of defence, reporting to the Audit Committee.

Enterprise Risk Appetite (“ERA”) Framework

The Board-approved ERA Framework defines the amount of risk that RateSetter is willing to accept in pursuit of its business objectives. It enables the RateSetter Board to define its strategic approach to ERM. It also provides stakeholders with guidance on levels within which the Group will operate. The risk appetite is expressed in the form of a series of assertions for each principal risk and risk appetite metrics, with a limit structure in place to monitor delivery against appetite.

Principal risks

The following section summarises the principal risks which are defined as the categories of risk that are the most significant for the business

Principal Risk	Definition	Mitigation
Strategic Risk	The risk that the Group fails to achieve its strategic objectives through a combination of the five risks outlined below.	In addition to the mitigants detailed below, the Group has a well-established and effective governance framework, which includes Board and Management level committees, each with approved terms of reference to ensure appropriate oversight, discussion, challenge and decision making.
Financial Risk	The risk of not having sufficient financial resources to operate the business or meet regulatory requirements.	<p>The Group actively monitors its current and forecast capital and liquidity levels, against its strategic and regulatory requirements.</p> <p>The Audit Committee is responsible for overseeing the financial reporting and internal financial controls of the Group, and for overseeing the internal and external audit processes.</p>
	The risk of financial loss to the Group through asset or liability positions sensitive to changes in market prices.	Through the equity investment in Plenti Group Limited the Group is exposed to the fluctuation of the Australian Dollar against Pound Sterling and to changes in the fair value of the investment. The Group seeks to mitigate this risk by monitoring any movements and reviewing the potential risk on a regular basis.
		The Group allows its investors to exit from their lending, subject to there being a replacement investor, but bears the interest rate risk associated with any change in the rates resulting from the replacement of an investor. The Group monitors this risk on a regular basis and charges exit fees to offset this risk.
Regulatory Risk	The risk of financial loss or regulatory sanctions resulting from a failure to comply with regulations and codes applicable to the Group.	The Group is open and proactive with its regulator, the FCA. The compliance function monitors the Group's regulatory compliance and assesses the impact of any changes in the regulatory environment. In addition, oversight is provided by both the Audit Committee and Board Risk Committee.

Credit Risk	The risk that an increase in credit losses results in poor investment outcomes for our investors, who ultimately bear the credit risk.	<p>Management of credit risk associated with borrowers via the RateSetter platform is mitigated by;</p> <ul style="list-style-type: none"> • a clearly defined Credit Risk Framework and Credit Risk Appetite; • specialist skills in credit underwriting and monitoring; and • the segregation of responsibilities for the origination and the credit assessment of loans.
Operational Risk	The risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events including financial crime.	<p>The Group maintains robust operational systems and controls, and has invested heavily in building up its capabilities. In particular, the Group has invested to make its IT infrastructure resilient and well-protected against cyber-crime.</p> <p>The Executive Operations Committee is responsible for overseeing and managing the operational performance and risk of the Group.</p>
Conduct Risk	The risk of loss, regulatory sanctions, legal exposure or reputational damage resulting from poor customer outcomes generated by RateSetter's behaviour.	<p>The Group mitigates conduct risk by observing and tracking activities which affect customers, monitoring customer complaints and implementing any mitigations or process improvements required.</p> <p>The Group also seeks to be as transparent as possible in all its activities. The Group's business model is explained on its website and RateSetter publishes a range of historical and current data to inform customers of the performance of the Group and the underlying loan portfolio.</p>

Directors' report

The Directors present their report and the audited financial statements of the Group for the year-ended 31 March 2020

Principal activity

The principal activity of the Group throughout the year was peer-to-peer lending, acting as a financial intermediary to match investors and borrowers via the RateSetter platform. The Strategic Report on pages 3-9 contains a review of the development and performance of the Group during the year.

Significant events arising since year-end

COVID-19

The outbreak of COVID-19 in the UK and the lockdown in March 2020 resulted in significant turbulence across the financial system. Investors' appetite for credit risk reduced and a mass liquidation across asset classes ensued. RateSetter saw a sharp increase in requests for investor liquidity, peaking on 16 March 2020 and then falling back to normal levels over subsequent weeks, which reduced our capacity to lend as we focussed on balancing the demands of our borrowers with investors requesting to exit. However, a backlog of investment release requests remains, and it is taking longer than usual to process these requests. We are continuing to deliver as many requests as possible, processing requests in chronological order in each market, with daily delivery determined by the supply of funds within that market.

Given the deterioration in economic outlook, we materially increased our Future Expected Credit Losses, including adding a macroeconomic overlay. This provisioning was in line with other mainstream lenders. The result was that, for the first time, the Interest Coverage Ratio reduced to below 100%, prompting a temporary interest reduction for all investors which was announced on 4 May 2020. During the temporary interest reduction, expected to be for the remainder of 2020, investors will receive only 50% of their interest with the other 50% being diverted to the Provision Fund, for the protection of all investors.

In light of the uncertainty around returns and liquidity, the platform closed to new investors. It has remained open throughout for existing investors, who continue to invest, and continued to deliver on investment release requests.

Operationally, RateSetter has adapted well to the changed environment. We rapidly enabled employees to move to remote working. Investing and borrowing as well as delivery of customer service has continued uninterrupted from an operational perspective.

Acquisition by Metro Bank

The Group had long-standing plans to raise additional capital in 2020 to continue to grow the business and platform. Following the pandemic outbreak in March 2020, the timeline for these plans accelerated, including exploring the option of a strategic trade sale.

On 15 June 2020, RateSetter entered a period of exclusivity with Metro Bank about the acquisition of RateSetter. Metro Bank had stated in early 2020 that it intended to grow in consumer finance, making the potential combination a natural fit. After a period of due diligence and negotiation, the transaction was announced on 3 August 2020, subject to shareholder and regulatory approval.

On 14 September 2020, the acquisition completed and a capital injection of £18.7m was made by Metro Bank to enable RateSetter to meet its ongoing regulatory capital requirements. In addition, Metro Bank confirmed its intention to provide ongoing capital support, as required, for the foreseeable future. The transaction did not involve RateSetter's holding in Plenti Group Limited which was transferred to shareholders at the time of completion, via a bonus issue of C shares and a subsequent capital reduction.

Metro Bank plans to significantly grow RateSetter's unsecured consumer lending through the RateSetter platform, using the lending and credit management capability RateSetter has built over the last decade.

New lending

All new unsecured consumer lending will be funded by Metro Bank, in line with Metro Bank's stated strategy to grow in this area. Existing RateSetter investors will continue to fund the secured lending lines (residential property development, asset finance and family finance) for as long as RateSetter is committed to these lending channels, as well as any new giffgaff loans while RateSetter continues to facilitate them.

Retail investors

Apart from the remaining secured and giffgaff lending, the loan portfolio funded by retail investors will go into run-off and decrease in size over time. RateSetter will not be accepting new retail investors but existing investors can continue to invest in the portfolio. Our focus on investment performance and the management of the Provision Fund, which will continue to protect retail investors, will remain throughout.

Dividend

The directors do not propose a dividend in respect of the year-ended 31 March 2020 (2019: £nil).

Directors

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

P Manduca (Chairman and NED)

I Boyce (NED)

S Bridges (NED)

J Gunner (NED) *resigned 9 April 2019*

M Scrivens (NED) *appointed 1 November 2019*

A Lewis (CEO)

P Behrens (CCO)

H Russell (CFO)

Disclosure of information to the auditor

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 auditor is 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 auditor is aware of that information.

Going concern

The directors have considered a number of factors in assessing the capacity of the Group to continue to operate as a going concern for the foreseeable future.

These factors include:

- the financial performance and position of the Group; taking account of the impact that the COVID-19 pandemic has had on both the liquidity of the Group and the performance of RateSetter's loan portfolio; and
- the acquisition of the Group by Metro Bank; considering both the capital commitments made by Metro Bank and the potential impact on the Group's future business strategy.

On completion of its acquisition on 14 September 2020, Metro Bank injected £18.7 million of capital into the Group to restore the Group's regulatory capital position following the transfer to the shareholders of the investment in Plenti Group Limited and to provide sufficient liquidity to cover anticipated trading losses for the remainder of 2020.

Going forward, it is proposed that the Group will generate revenue, via a commission arrangement between itself and Metro Bank, for the origination, underwriting and servicing of unsecured personal loans (funded from Metro Bank's deposit base). Therefore, the ability of the Group to retain both a solvent cash position and a regulatory capital surplus will depend on the generation of adequate revenue from this arrangement.

The directors are confident that the Group is well positioned to rapidly accelerate its unsecured consumer lending via its existing, scalable platform. However, should the volume of future lending and associated commission paid to the Group not be enough to cover the Group's future operating costs (resulting in the Group continuing to make losses and impacting the Group's ability to meet its minimum regulatory requirements), Metro Bank plan to provide further financial support to the Group.

Any additional financial support is expected to be provided by Metro Bank as required. In addition, an overdraft facility of £2 million is expected to be put in place to provide additional liquidity to the Group if required. However, the Group does not have an unconditional guarantee of financial support from Metro Bank and, therefore, is dependent on Metro Bank continuing to honour their proposals, if required.

The directors expect that the level of this initial financial support will enable it to meet its liquidity requirements for the next twelve months even in a downside scenario, which would see no new lending, no further parental support and a commensurate down-sizing of the business as the remaining investor portfolio runs-off. However, there remains a risk that if the Group does not generate sufficient revenues and does not receive further support from its parent, it may not be able to meet its ongoing regulatory financial resources requirements, and this could impact the Group's ability to continue to operate as a going concern.

Whilst the directors are confident that Metro Bank has every intention of supporting its subsidiary, there is no guarantee that it will support the Group beyond its initial capital injection. As a result, the directors recognise that a material uncertainty exists that casts significant doubt upon the ability of the Group and the Company to continue as a going concern.

Notwithstanding this uncertainty, the directors remain confident that the Group will be able to achieve its strategic plans based on:

- *their confidence in the potential of the consumer unsecured lending market;*
- the Group's status as one of the leaders in the sector, with a strong technology platform and a talented team who have deep experience in the consumer unsecured lending market;
- the stated strategic ambition of Metro Bank to grow its unsecured consumer lending via the RateSetter platform; and
- the ability of Metro Bank to generate sufficient deposits for lending and to provide future financial support, if required, to follow their stated strategic intent and initial financial commitment.

Given these factors and having considered the risks and uncertainties to which the Group's business model is exposed, the directors expect that the Group will have sufficient financial resources to meet its obligations (including regulatory capital requirements) for the foreseeable future (being a period of at least twelve months from the date of this report). Consequently, the directors have concluded that it remains appropriate to continue to adopt the going concern basis of accounting in the preparation of the financial statements.

This report was approved by the Board of directors and signed on behalf of the Board by:



Rhydian Lewis
CEO

14 September 2020

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, the 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 or the Company's financial position and the Group's performance; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group or 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 and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's report

to the members of Retail Money Market Ltd

Opinion

We have audited the financial statements of Retail Money Market Limited ('the Company') and its subsidiaries (together the 'Group') for the year ended 31 March 2020 which comprise of the consolidated statement of comprehensive income, the consolidated and Company statements of financial position, the consolidated statement of changes in equity, the Company statement of changes in equity, the consolidated and Company statements of cash flows and the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the Directors' going concern assessment in Note 1 to the financial statements in which the directors have identified that, without further future financial support from the Group's parent company, the Company may not have sufficient capital to continue to meet its minimum regulatory capital requirements for the foreseeable future. Whilst the Group's parent company has stated an intention to provide further financial support, the Directors note that the parent company has not provided an unconditional guarantee in this regard.

Therefore, the directors have noted that, in the absence of a guarantee of financial support, a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- 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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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.



Michael-John Albert (Senior statutory auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 September 2020

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Consolidated statement of comprehensive income

Year-ended 31 March 2020

	Notes	2020 £'000	2019 £'000
Income	4	30,407	33,198
Cost of sales	6	(10,926)	(14,255)
Gross profit		19,481	18,943
Administrative expenses ¹		(27,598)	(27,101)
Operating loss	9	(8,117)	(8,158)
Interest received & similar income	10	84	72
Finance income ¹	11	32	-
Interest paid & similar costs ¹	12	(623)	(397)
Realised gain on sale of subsidiaries	13	-	224
Loss before taxation		(8,624)	(8,259)
Income tax credit	14	344	104
Loss for the year		(8,280)	(8,155)
Other comprehensive (loss) / income	19	(1,179)	3,996
Total comprehensive loss for the year		(9,459)	(4,159)

¹ - On 1 April 2019 the Group adopted IFRS 16 Leases. The new standard was adopted on the modified retrospective basis and as such the comparative figures have not been restated. Further details can be found in Note 2.

The Company's loss after tax for the year was £9,626k (2019: £11,616k loss).

All amounts relate to continuing activities.

The notes on pages 25 to 51 form part of these financial statements.

Statements of financial position

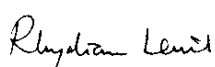
As at 31 March 2020

	Notes	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Intangible assets	16	114	114	61	61
Property, plant & equipment ¹	17	3,824	3,824	471	468
Financial assets held at fair value	19	12,158	12,158	13,337	13,337
Restricted investments held at fair value	30	-	-	1,998	-
Loan receivables	22	329	-	1,781	-
Non-current assets		16,425	16,096	17,648	13,866
Stock	20	6	-	46	-
Loan receivables	22	709	-	2,698	-
Finance lease ¹	18	92	92	-	-
Trade & other receivables	23	4,630	5,948	5,206	4,989
Restricted cash & cash equivalents	30	7,184	-	11,091	-
Unrestricted cash & cash equivalents	21	6,001	5,842	18,904	18,056
Current assets		18,622	11,882	37,945	23,045
Total assets		35,047	27,978	55,593	36,911
Trade & other payables	26	(3,174)	(10,957)	(5,859)	(12,576)
Provision Fund provision	31	(5,820)	-	(12,897)	-
Loans & borrowings	28	(4,547)	-	(8,634)	-
Provisions	27	(1,955)	(2,017)	(1,665)	(2,807)
Lease liabilities ¹	29	(884)	(884)	-	-
Current liabilities		(16,380)	(13,858)	(29,055)	(15,383)
Loans & borrowings	28	(18,078)	-	(20,006)	-
Provisions	27	(2,535)	(5,844)	(1,766)	(5,194)
Lease liabilities ¹	29	(2,504)	(2,504)	-	-
Non-current liabilities		(23,117)	(8,348)	(21,772)	(5,194)
Total liabilities		(39,497)	(22,206)	(50,827)	(20,577)
Net (liabilities) / assets		(4,450)	5,772	4,766	16,334
Share capital & share premium	32	15,065	15,065	15,049	15,049
Other reserves		41,867	41,867	41,640	41,640
Revaluation reserve		12,158	12,158	13,337	13,337
Retained losses		(73,540)	(63,318)	(65,260)	(53,692)
Equity shareholders' (deficit) / funds		(4,450)	5,772	4,766	16,334

¹ - On 1 April 2019 the Group adopted IFRS 16 Leases. The new standard was adopted on the modified retrospective basis and as such the comparative figures have not been restated. Further details can be found in Note 2.

The financial statements were approved, authorised for issue by the Board and signed on its behalf by:

A Lewis (CEO)
14 September 2020



H Russell (CFO)
14 September 2020



Registered Number: 07075792. The notes on pages 25 to 51 form part of these financial statements.

Group statement of changes in equity

Year-ended 31 March 2020

	Share capital and premium £'000	Share option reserve £'000	Distributable capital reserve £'000	Own shares reserve £'000	Revaluation reserve £'000	Retained losses £'000	Total £'000
Group balance as at 1 April 2018	1	625	43,301	(2,192)	9,341	(57,268)	(6,192)
Shares purchased by employee benefit trust	-	-	-	(10)	-	-	(10)
Capital raised	15,048	-	-	-	-	-	15,048
Share-based payment award	-	79	-	-	-	-	79
Reserve transfer (deferred tax)	-	(163)	-	-	-	163	-
Revaluation of investments	-	-	-	-	3,996	-	3,996
Loss for the year	-	-	-	-	-	(8,155)	(8,155)
Group balance as at 31 March 2019	15,049	541	43,301	(2,202)	13,337	(65,260)	4,766
Shares purchased by employee benefit trust	-	-	-	(53)	-	-	(53)
Capital raised	16	-	-	-	-	-	16
Share-based payment award	-	280	-	-	-	-	280
Revaluation of investments	-	-	-	-	(1,179)	-	(1,179)
Loss for the year	-	-	-	-	-	(8,280)	(8,280)
Group balance as at 31 March 2020	15,065	821	43,301	(2,255)	12,158	(73,540)	(4,450)

The notes on pages 25 to 51 form part of these financial statements.

Company statement of changes in equity

Year-ended 31 March 2020

	Share capital and premium £'000	Share option reserve £'000	Distributable capital reserve £'000	Own shares reserve £'000	Revaluation reserve £'000	Retained losses £'000	Total £'000
Company balance as at 1 April 2018	1	625	43,301	(2,192)	9,350	(42,239)	8,846
Shares purchased by employee benefit trust	-	-	-	(10)	-	-	(10)
Capital raised	15,048	-	-	-	-	-	15,048
Share-based payment award	-	79	-	-	-	-	79
Reserve transfer (deferred tax)	-	(163)	-	-	-	163	-
Revaluation of investments	-	-	-	-	3,987	-	3,987
Loss for the year	-	-	-	-	-	(11,616)	(11,616)
Company balance as at 31 March 2019	15,049	541	43,301	(2,202)	13,337	(53,692)	16,334
Shares purchased by employee benefit trust	-	-	-	(53)	-	-	(53)
Capital raised	16	-	-	-	-	-	16
Share-based payment award	-	280	-	-	-	-	280
Revaluation of investments	-	-	-	-	(1,179)	-	(1,179)
Loss for the year	-	-	-	-	-	(9,626)	(9,626)
Company balance as at 31 March 2020	15,065	821	43,301	(2,255)	12,158	(63,318)	5,772

The notes on pages 25 to 51 form part of these financial statements.

Cash flow statements

Year-ended 31 March 2020

	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Loss for the year before tax	(8,624)	(9,970)	(8,259)	(11,768)
Operating activities				
Depreciation of property, plant and equipment ¹	1,260	1,260	371	371
Loss on disposal of property, plant and equipment	16	13	65	-
Amortisation of intangible assets	49	49	65	65
Impairment of investments	-	-	-	264
Share-based payment transaction expense	280	280	79	79
Interest received and similar income	(84)	(274)	(72)	(304)
Finance income ¹	(32)	(32)	-	-
Interest paid on loans & borrowings	328	-	396	-
Interest on lease liabilities ¹	295	295	-	-
Lease expense on finance lease ¹	26	26	-	-
Dividend received and return of capital contribution	-	(377)	-	-
Decrease in stock	41	-	159	-
Decrease in Loan receivables	3,441	-	10,216	-
(Increase) in trade and other receivables	574	(961)	(604)	443
(Decrease)/Increase in trade and other payables	(2,007)	(939)	741	6,088
Increase/(Decrease) in provisions	1,058	(140)	(386)	111
Exclusion of movement of restricted working capital	(1,171)	-	1,417	-
Corporation tax adjustment	344	344	104	151
Impact of IFRS 9 adoption on b/fwd retained losses	-	-	(467)	-
Impact of IFRS 16 adoption on b/fwd retained losses	(382)	(382)	-	-
Net cash flows from operating activities	(4,588)	(10,808)	3,825	(4,500)
Investing activities				
Purchase of property, plant and equipment	(796)	(796)	(103)	(103)
Proceeds from the disposal of property, plant and equipment	-	-	700	-
Purchase of intangible assets	(102)	(102)	(19)	(19)
Dividend received and return of capital contribution	-	377	-	-
Interest received and similar income	84	274	72	304
Net cash flows from investing activities	(814)	(247)	650	182
Financing activities				
Capital raised	16	16	15,048	15,048
Shares purchased by employee benefit trust	(53)	(53)	(10)	(10)
Repayment of capital element of lease ¹	(1,122)	(1,122)	-	-
Interest paid on loans & borrowings	(328)	-	(397)	-
Repayment of loans & borrowings	(6,014)	-	(8,441)	-
Net cash flows from financing activities	(7,501)	(1,159)	6,200	15,038
Net (decrease) / increase in net funds	(12,903)	(12,214)	10,675	10,720
Unrestricted cash & cash equivalents at 1 April	18,904	18,056	8,229	7,336
Unrestricted cash & cash equivalents at 31 March	6,001	5,842	18,904	18,056

The notes on pages 25 to 51 form part of these financial statements.

¹ - On 1 April 2019 the Group adopted IFRS 16 Leases. The new standard was adopted on the modified retrospective basis and as such the comparative figures have not been restated. Further details can be found in Note 2.

Summary of significant accounting policies

This section describes the significant accounting policies and critical accounting estimates that impact the financial statements of the Group and Company. If an accounting policy or critical accounting estimate relates to a specific note, the details are contained within the relevant note.

1. Summary of significant accounting policies

Basis of preparation

These annual financial statements have been prepared in accordance with IFRSs as adopted by the EU and as issued by the International Accounting Standards Board and in accordance with the requirement of the Companies Act 2006. The Group's functional and presentational currency is pounds sterling (£).

These 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 the 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 Company's loss after tax for the year was £9,626k (2019: £11,616k).

Three of the Group subsidiaries (APNL Limited, Security Trustee Services Limited and RateSetter Motor Limited) will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 which requires the Company to give a guarantee under section 479C of the Companies Act in respect of the financial year-ending 31 March 2020.

Two of the Group subsidiaries (Vehicle Credit Limited and Vehicle Stocking Limited) have been provided with a letter of support from the Company covering a period of at least 12 months from the date of signing their accounts for the year-ending 31 March 2020.

Basis of consolidation

The Group's financial statements incorporate the financial statements of Retail Money Market Ltd and its subsidiaries (as disclosed in Note 24).

Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. Uniform accounting policies are applied consistently across the Group. Intercompany transactions and balances are eliminated upon consolidation.

Going concern

The directors have considered a number of factors in assessing the capacity of the Group to continue to operate as a going concern for the foreseeable future.

These factors include:

- the financial performance and position of the Group; taking account of the impact that the COVID-19 pandemic has had on both the liquidity of the Group and the performance of RateSetter's loan portfolio; and
- the acquisition of the Group by Metro Bank; considering both the capital commitments made by Metro Bank and the potential impact on the Group's future business strategy.

On completion of its acquisition on 14 September 2020, Metro Bank injected £18.7 million of capital into the Group to restore the Group's regulatory capital position following the transfer to the shareholders of the investment in Plenti Group Limited and to provide sufficient liquidity to cover anticipated trading losses for the remainder of 2020.

Going forward, it is proposed that the Group will generate revenue, via a commission arrangement between itself and Metro Bank, for the origination, underwriting and servicing of unsecured personal loans (funded from Metro Bank's deposit base). Therefore, the ability of the Group to retain both a solvent cash position and a regulatory capital surplus will depend on the generation of adequate revenue from this arrangement.

The directors are confident that the Group is well positioned to rapidly accelerate its unsecured consumer lending via its existing, scalable platform. However, should the volume of future lending and associated commission paid to the Group not be enough to cover the Group's future operating costs (resulting in the Group continuing to make losses and impacting the Group's ability to meet its minimum regulatory requirements), Metro Bank plan to provide further financial support to the Group.

Any additional financial support is expected to be provided by Metro Bank as required. In addition, an overdraft facility of £2 million is expected to be put in place to provide additional liquidity to the Group if required. However, the Group does not have *an unconditional guarantee of financial support from Metro Bank and, therefore, is dependent on Metro Bank continuing to honour their proposals, if required.*

The directors expect that the level of this initial financial support will enable it to meet its liquidity requirements for the next twelve months even in a downside scenario, which would see no new lending, no further parental support and a commensurate down-sizing of the business as the remaining investor portfolio runs-off. However, there remains a risk that if the Group does not generate sufficient revenues and does not receive further support from its parent, it may not be able to meet its ongoing regulatory financial resources requirements, and this could impact the Group's ability to continue to operate as a going concern.

Whilst the directors are confident that Metro Bank has every intention of supporting its subsidiary, there is no guarantee that it will support the Group beyond its initial capital injection. As a result, the directors recognise that a material uncertainty exists that casts significant doubt upon the ability of the Group and the Company to continue as a going concern.

Notwithstanding this uncertainty, the directors remain confident that the Group will be able to achieve its strategic plans based on:

- their confidence in the potential of the consumer unsecured lending market;
- the Group's status as one of the leaders in the sector, with a strong technology platform and a talented team who have deep experience in the consumer unsecured lending market;
- the stated strategic ambition of Metro Bank to grow its unsecured consumer lending via the RateSetter platform; and
- the ability of Metro Bank to generate sufficient deposits for lending and to provide future financial support, if required, to follow their stated strategic intent and initial financial commitment.

Given these factors and having considered the risks and uncertainties to which the Group's business model is exposed, the directors expect that the Group will have sufficient financial resources to meet its obligations (including regulatory capital requirements) for the foreseeable future (being a period of at least twelve months from the date of this report). Consequently, the directors have concluded that it remains appropriate to continue to adopt the going concern basis of accounting in the preparation of the financial statements.

Critical accounting estimates & judgements

The preparation of financial statements requires management to make use of critical accounting estimates and 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 are:

- valuation of share-based payments, disclosed in Note 8;
- recognition of deferred tax asset, disclosed in Note 14;
- fair value of non-listed equity investment, disclosed in Note 19;
- measurement of provision for onerous contracts, disclosed in Note 27; and
- incremental cost of borrowing in relation to lease accounting, disclosed in Note 29.

Foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency at the rate of exchange at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling on the reporting date. Exchange differences arising on re-translation are recognised in the statement of comprehensive income.

2. New accounting standards

On 1 April 2019, the Group adopted IFRS 16 Leases which provides guidance on the classification, recognition and measurement of leases. IFRS 16 replaces IAS 17 'Leases' and provides a single lessee accounting model, requiring lessees to recognise right of use ('RoU') assets and lease liabilities for all applicable leases, with operating leases being brought onto the face of the statement of financial position.

The Group has adopted IFRS 16 on the modified retrospective basis and as such the comparatives within these financial statements have not been restated and continue to be presented under IAS 17.

On adoption of the standard, the Group recognised lease liabilities for operating leases of £4.21m. The Group chose the transitional option to set the RoU asset, adjusted for prepaid or accrued payments, equal to the related lease liability for all leases as at 1 April 2019 and therefore there is no opening adjustment to retained earnings. The RoU asset recognised as at 1 April 2019 amounts to £3.83m. There was no material impact on lessor accounting within the subsidiaries.

The Group acts as an intermediate lessor for a sublease. The sublease is classified by reference to the RoU asset arising from the head lease. The Group classifies the sublease as a finance lease.

The Group derecognises the RoU asset relating to the head lease that it transfers to the sublessee and recognises the net investment in the sublease. Any difference between the RoU asset and the net investment in the sublease is recognised in the income statement. The lease liability relating to the head lease is retained in the statement of financial position, which represents the lease payments owed to the head lessor.

During the term of the sublease, the Group recognises both finance income on the sublease and interest expense on the head lease.

a. Use of estimates

The only estimate made at the point of transition was the discount rate used to measure lease liabilities. Under IFRS 16 future lease payments are discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Group's incremental borrowing rate. At transition, none of the leases contained an implicit interest rate therefore we used the Group's incremental cost of borrowing. The Group's weighted average discount rate at transition was 7%, determined by reference to the rate the Group would be able to borrow in the market for similar assets over a similar time period. The table below shows the impact on the opening lease liability had the discount rate been one percent higher or lower.

	Weighted average discount rate of 6%	Weighted average discount rate of 8%
Lease liability at 1 April 2019	£4.32m	£4.11m

b. Use of judgements

A judgement was made in regard to whether the Group will exercise any breaks contained within its leases as this has a significant impact on the measurement of the lease liability. At transition, it has been assumed that all leases will be retained for their full term unless there is a specific plan to vacate the site at an available break point, in which case the lease term is deemed to be the period up until that point. This is consistent with the period of time over which the Group depreciates its leasehold improvements.

c. Practical expedients

We have applied the available practical expedients of exempting leases with a short life (less than 12 months) or low value (less than £5k) on an ongoing basis. These leases will continue to be recognised on a straight-line basis over the lease term and are deemed immaterial to the Group. As a result, the key leases to which IFRS 16 has been applied are for the Group's offices and leased cars. At transition, the Group did not have any leases of 12 months or less (or any longer-term leases in their final year).

The table below reconciles the Group's undiscounted lease commitments as at 31 March 2019 to the opening lease liability and RoU assets recognised under IFRS 16 at the point of transition.

	£'000
Total undiscounted lease commitments as at 31 March 2019	1,835
Lease extension ¹	3,236
Discount using the incremental borrowing rate	(856)
Lease liability as at 1 April 2019	4,215
Adjustment for prepaid or accrued payments	(263)
Adjustment for sub-lease payments	(119)
RoU asset as at 1 April 2019	3,833

¹ - Lease extension relates to the decision not to enforce the break clause on the London office lease. The lease expires in September 2023.

Financial risk management

This section explains the principal financial risks faced by the Group and its policies and strategies for managing these risks.

3. Financial Risk Management

Credit risk

Credit risk is 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 loan receivables, operating activities (primarily from the Group's receivables from external counterparties) and financing activities (including cash equivalents held by financial institutions). The Group's maximum exposure to credit risk by class of financial asset is as follows:

	Group 2020 £'000	Company 2020 £'000	Group 2019 £'000	Company 2019 £'000
Loan receivables	329	-	1,781	-
Non-current assets	329	-	1,781	-
Trade receivables	448	410	1,008	1,023
Loan receivables	709	-	2,698	-
Accrued income	2,229	2,229	2,168	2,133
Other receivables	1,518	2,877	1,208	1,037
Unrestricted cash and cash equivalents	6,001	5,842	18,904	18,056
Restricted cash and cash equivalents	7,184	-	11,091	-
Current assets	18,089	11,358	37,077	22,249

The ageing analysis of the Group's loan receivables is as follows:

31 March 2020	Amounts not					
	Total	past due	1-30 days	31-60 days	61-90 days	> 90 days
	£'000	£'000	£'000	£'000	£'000	£'000
Gross loan receivables	1,285	892	186	46	17	144
Impairment provision	(247)					
Net loan receivables	1,038					

31 March 2019	Amounts not					
	Total	past due	1-30 days	31-60 days	61-90 days	> 90 days
	£'000	£'000	£'000	£'000	£'000	£'000
Gross loan receivables	6,150	4,273	755	200	83	839
Impairment provision	(1,671)					
Net loan receivables	4,479					

All current assets have been analysed for impairment using the ECL approach but only the loan receivables were deemed to have a material loss allowance.

Trade receivables, loan receivables, accrued income and other receivables 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. It has an effective collections process to minimise any losses on its loan receivables. All loans are subject to strict lending and affordability criteria and the Group's policy is to deal only with creditworthy counterparties. Cash and cash equivalents are held with reputable institutions, which are credit assessed regularly.

The loan receivables represent non-prime motor finance hire purchase loans made by two of the Group's subsidiaries, primarily prior to their acquisition by the Group in May 2017. The loans are amortising in line with expectations and the majority of the outstanding balance is expected to be repaid within the next year. The loan receivables represent the Group's non-core operations (See Note 5).

The Company has two intra-group debtors and the amounts owed by APNL Limited £14,407k (2019: £12,244k) and RateSetter Motor Limited £1,200k (2019: £1,200k) have been fully impaired.

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure it has sufficient financial resources to meet its liabilities as they fall 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 administering loans, and the capital requirement to compensate investors is limited to the amount held as restricted assets in the financial statements.

The maturity analysis of the financial instruments held by the Group and the Company at 31 March 2020 and 31 March 2019 is shown in the table below. The amounts disclosed are the contractual undiscounted cash flows. Except for the loans & borrowings, these balances are repayable on demand at the value shown in the financial statements.

	Group	Company	Group	Company
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Trade and other payables	3,174	10,957	5,859	12,576
Lease liabilities ¹	1,122	1,122	-	-
Loans & borrowings	5,943	-	10,395	-
Current liabilities	10,239	12,079	16,254	12,576
Lease liabilities ¹ :				
Between 1 and 2 years	1,122	1,122	-	-
Between 2 and 5 years	1,704	1,704	-	-
Loans & borrowings:				
Between 1 and 2 years	5,943	-	9,769	-
Between 2 and 5 years	14,362	-	11,901	-
Non-current liabilities	23,131	2,826	21,670	-

Market risk

Market risk is 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 investments held at fair value. The Group's risk to market changes is monitored and reviewed on an ongoing basis by the directors.

Price risk

The Group's equity investments are susceptible to market price risk arising from the uncertainty of the future market value of the investments. The Group manages this risk through diversification and by placing limits on the value of individual and total equity investments. At the reporting date, the exposure to listed equity and fixed-income securities at fair value was £nil (2019: £2.0m). At the reporting date, the exposure to unlisted equity securities held at fair value was £12.2m. A 10% decrease in fair value could have an impact of approximately £1.2m (2019: £1.3m) on the income or equity attributable to the Group.

Interest rate risk

Fluctuations in interest rates can affect interest income and expense, through financial assets and liabilities with variable interest rates. The Group's exposure to interest rate risk of £6.0m is associated with its cash and cash equivalents. The Group's Loans & 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 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 £30k (2019: £95k) on the income or equity attributable to the Group.

¹ - On 1 April 2019 the Group adopted IFRS 16 Leases. The new standard was adopted on the modified retrospective basis and as such the comparative figures have not been restated. Further details can be found in Note 2.

Foreign exchange risk

The Group has exposure to an equity investment held in Australian dollars, valued at \$24.5m at the reporting date. The Group does not hedge the foreign exchange rate risk. 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 £608k (2019: £667k) on the income or equity attributable to the Group.

Income and costs

This section explains the accounting policies and provides additional details pertaining to RateSetter's financial performance during the year.

4. Income

Types of income

Core income represents the contract value of the consideration receivable for the provision of financial intermediary services and is recognised exclusive of VAT and trade discounts. The primary components of core income are accounted for as follows:

Loan origination fees

Loan origination fees are earned in respect of services performed to facilitate the formation of each loan agreement, being the process of matching a borrower to a lender via the RateSetter Platform. Income from loan origination fees is recognised at the point in time that each loan agreement is formed, being the point at which the Group's performance obligation is completed. Subject to the variable element of the consideration (as described below), loan origination fees are calculated as a percentage of the loan value requested by the borrower and in accordance with terms stipulated in the agreement between the borrower and lender. The fees are paid by the borrower upon the formation of the loan agreement and are not generally subject to any rebates or refunds.

Loan management fees

Loan management fees are earned in respect of on-going services provided in relation to the administration of each loan agreement throughout the life of the loan. The Group's performance obligation is satisfied over a period of time and income is recognised on an accruals basis in the same period over which the service is performed. Subject to the variable element of the consideration (as described below), loan management fees are calculated as a percentage of the loan balance outstanding and in accordance with terms stipulated in the agreement between the borrower and lender. Loan management fees are paid to the Group by the borrower as a component of their capital and interest repayments (and in accordance with the fixed repayment profile stipulated in the loan agreement).

Provision Fund

Both loan origination fees and loan management fees are deemed to be forms of variable consideration with the fee entitlements, calculated using the fixed methodologies described above, being reduced by the allocation of a portion of this fee to the Group's Provision Fund. The criteria used in determining the amount of fee reduction is described in the Restricted Assets policy. However, there is no significant judgement or estimation involved in the measurement of consideration as the amounts allocated to the Provision Fund are determined at the time of signing the loan agreement.

Non-core income

Non-core income represents interest receivable from the provision of motor finance. Interest receivable and the associated fees and charges are recognised using the effective interest rate method.

Income recognition

The Group uses the output method to recognise income on the basis that the amounts charged to borrowers are deemed to correspond directly with the value to the borrower of the Group's completed performance obligations. In addition, the borrower is deemed to consume the benefits of the services provided by the Group simultaneously to the Group providing these services.

All performance obligations are deemed to be substantially completed at the end of each reporting period and no consideration is received in advance of the completion of an obligation.

5. Segmental analysis

The Group's operations are carried out in the UK and its results and net assets are derived primarily from its core activity as a financial intermediary. Non-core income arises from the provision of motor finance by Vehicle Credit Limited and Vehicle Stocking Limited. The debt service cost associated with the non-core operations is classified as a cost of sale. The gross profit of each reportable segment is shown below.

The Group's income from core operations includes loan origination fees of £17,532k (2019: £15,616k), loan management fees of £10,184k (2019: £12,989k) and other income of £1,613k (2019: £1,059k).

2020	Core operations	Non-core operations	Total
	£'000	£'000	£'000
Income	29,329	1,078	30,407
Cost of sales	(9,449)	(1,477)	(10,926)
Segmental gross profit	19,880	(399)	19,481
2019	Core operations	Non-core operations	Total
	£'000	£'000	£'000
Income	29,664	3,534	33,198
Cost of sales	(12,425)	(1,830)	(14,255)
Segmental gross profit	17,239	1,704	18,943

6. Cost of sales & administrative expenses

Cost of sales comprises the credit, data, payment and introducer commission costs incurred whilst acting as a financial intermediary in the origination of peer-to-peer loan agreements. In addition, the debt service cost associated with the non-core provision of motor finance is classified as a cost of sale. All amounts are recognised on an accruals basis.

Administrative expenses comprises office costs, employee salaries, marketing, legal and professional fees, and other costs. All amounts are recognised on an accruals basis.

7. Employees and remuneration

The Group applies IAS 19 Employee benefits in its accounting for most of the components of employee costs.

	2020	2019
	£'000	£'000
Wages and salaries	12,801	12,167
Social security contributions	1,501	1,433
Post-employment benefits	1,182	600
Staff costs	15,484	14,200
	2020	2019
IT	56	39
Central Functions	49	44
Operational	135	130
Average number of employees	240	213

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as administrative expenses within the statement of comprehensive Income. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

8. Share based payments

Types of share-based payments

Employees may be entitled to receive remuneration in the form of share options to reward positive long-term business performance and to incentivise growth for the future.

The Group issues equity-settled share-based payments to employees in the form of:

- Share options (EMI),
- Growth shares; and
- through a Share Incentive Plan.

Enterprise Management Incentives ("EMI") options

Historically, 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 2020 options were held by a total of 17 employees to subscribe for A Ordinary shares in the Company. The last award of options under this scheme was in May 2015. The weighted average remaining contractual life of the options is 45 months (2019: 56 months).

The following table shows the number of, weighted average exercise prices ("WAEP") of, and movements in, EMI share options during the year.

	2020 No.	2020 WAEP	2019 No	2019 WAEP
Outstanding and exercisable at 1 April	117,311	£7.93	122,410	£7.84
Forfeited during the year	-	-	(1,375)	£3.65
Exercised during the year	(43)	£0.01	(3,724)	£6.71
As at 31 March	117,268	£7.93	117,311	£7.93

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 166,850 growth shares (2019: 238,000) were awarded to employees and none (2019: nil) were cancelled. Growth shares are bought back by the employee benefit trust ("EBT") at cost if an employee leaves the Group within three years of the award date. At 31 March 2020 619,177 growth shares (2019: 452,327) were still in issue and held by the EBT on behalf of employees.

Share Incentive Plan

Free shares have been awarded to employees through an HMRC approved Share Incentive Plan ("SIP"). During the year 8,561 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 2020, 19,948 shares (2019: 16,561) remained in the SIP and were held on behalf of employees by an independent nominee. The total expense recognised for share-based payments during the year was £279,589 (2019: £79,319).

Employee benefit trust ("EBT") and own shares

The purpose of the Group's EBT is to acquire and hold shares in the Company on behalf of employees.

For accounting purposes, the assets of the EBT are treated as an extension of the Company and are aggregated with the results of the Company within the consolidated financial statements. As a result, the purchase of shares in the Company by the EBT is shown in the financial statements as an acquisition of the Company's own shares and shown as shares held in treasury in the Own shares reserve.

The Own shares reserve represents shares being held by the EBT 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 EBT in respect of the joint ownership and the shares held on behalf of the employees.

Significant accounting estimate – valuation of share-based payments

Estimating the fair value for share-based payment transactions requires the determination of the most appropriate valuation model, based on the terms and conditions of the award. This estimate also requires the 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 when valuing the EMI share options.

Recognition of share-based payment costs

The costs associated with share-based payment are recognised as an employee benefit expense within administrative expenses, together with a corresponding increase in equity (Share option reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled. 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 amount recognised in the statement of comprehensive income each year represents the movement in the cumulative expense recognised.

9. Operating loss

The operating loss of the Group is stated after charging:

	2020	2019
	£'000	£'000
Depreciation of Property, plant & equipment	1,260	371
Loss on disposal of Property, plant & equipment	16	65
Amortisation of intangible assets	49	65
Auditor's remuneration - Company	188	139
Auditor's remuneration – Subsidiaries	62	58

The auditor did not receive any fees for the provision of non-audit services during the year (2019: £2k).

10. Interest received & similar income

Interest received & similar income includes interest received from cash held on deposit and dividends received from investments. All amounts are recognised on an accruals basis.

	2020	2019
	£'000	£'000
Interest on lending	20	39
Interest on bank deposits	60	33
Other	4	-
Interest received & similar income	84	72

11. Finance income (policy applicable from 1 April 2019)

Finance income comprises income received from the Group's sub-leasing arrangement that has been classified as a finance lease under IFRS 16. All amounts are recognised on an accruals basis.

12. Interest paid & similar costs

Interest paid & similar costs comprises interest paid on loans & borrowings and the interest expense related to the lease liabilities. Interest paid on loans & borrowings represents the interest arising on the loan balance held by APNL Limited. The loan interest paid by Vehicle Credit Limited and Vehicle Stocking Limited is recognised within Cost of Sales. All amounts are recognised on an accruals basis.

	2020	2019
	£'000	£'000
Interest on loans & borrowings	(328)	(397)
Interest on lease liabilities	(295)	n/a
Interest paid & similar costs	(623)	(397)

13. Realised gain arising on sale of subsidiaries

In 2019, the Group sold two subsidiaries, DMNB Limited and POQ Media Ltd, both UK registered non-listed entities, and recognised a gain of £224k. No subsidiaries have been acquired or sold during the year-ended 31 March 2020.

14. Taxation

Current tax

Current tax is recognised in the statement of comprehensive Income and is provided at the amount expected to be paid (or recovered) by applying the relevant tax rates and laws, being those that are enacted or substantively enacted at the reporting date in the country where the Group operates and generates taxable income.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is determined using tax rates and legislation in force at the reporting date and is expected to apply when the deferred asset is realised, or the deferred tax liability is settled.

Income tax credit

The standard UK corporation tax rate was 19% for the year (19% for the year-ended 31 March 2019). In 2020, the UK government announced that the rate would remain at 19% for the years ending 31 March 2021 and 31 March 2022.

	2020 £'000	2019 £'000
Current tax for the year	-	-
Adjustment in respect of previous years	(344)	(104)
Current tax	(344)	(104)
Origination and reversal of temporary differences	-	-
Deferred tax	-	-
Total tax credit	(344)	(104)

The tax credit for the year differs from the tax credit calculated at the standard rate of corporation tax in the UK of 19% (2019: 19%) as explained below:

Loss before tax	(8,624)	(8,259)
Tax credit at standard rate of corporation tax of 19% (2019: 19%)	(1,639)	(1,569)
Effects of:		
Expenses not deductible	188	605
Income not taxable	(505)	-
Return of capital contribution	(50)	-
Losses on which deferred tax is not recognised	1,953	929
Share options	53	-
Adjustment in respect of change in accounting policy	-	35
Adjustment in respect of previous years	(344)	(104)
Tax credit	(344)	(104)

Significant accounting judgement - recognition of deferred tax asset

Significant management judgement is required to determine whether a deferred tax asset should be recognised, based upon the likely timing and level of future taxable profits, together with knowledge of future tax planning strategies. The directors have concluded that it is not appropriate to recognise a deferred tax asset at the reporting date. The Group has unrecognised temporary differences of £68.8m arising on gross tax losses, fixed asset and other short-term temporary differences. The net unrecognised deferred tax asset is £13.1m calculated at 19%. The carried forward tax losses are available to be carried forward indefinitely. The Company has unrecognised temporary differences of £45.5m (£8.6m at 19%) arising on gross tax losses of £43.0m and other items of £2.5m.

Assets

This section explains the accounting policies and provides additional details in relation to RateSetter's assets.

15. Financial assets

The Group applies IFRS 9 Financial instruments to the recognition, classification and measurement, impairment and derecognition of financial assets.

Recognition

Financial assets and liabilities are recognised in the Group's statement of Financial Position when the Group becomes a party to the terms of the contract.

Classification and measurement

Financial assets and liabilities are initially recognised at fair value and may subsequently be held at amortised cost, measured at Fair Value through Other Comprehensive Income (FVOCI) or measured at Fair Value through P&L (FVTPL).

Amortised cost

Assets that are held for the collection of contractual cashflows, where the cashflows represent solely repayments of principal and interest, are measured at amortised cost using the effective interest method, net of any impairment provision. Interest earned from such financial assets is recognised in the statement of comprehensive income as income on an accruals basis using the effective interest method. Any losses arising from impairment of the asset are recognised in the statement of comprehensive income within administrative expenses. The Group's financial assets measured at amortised cost comprises loan receivables.

FVOCI

The Group has elected to classify its equity investment in Plenti Group Limited (a private company incorporated in Australia) as FVOCI as it is neither held for trading nor contingent consideration recognised by an acquirer in a business combination. Movements in fair value are taken through other comprehensive income and will not be reclassified to the income statement at the time of derecognition, however a transfer is made on disposal between reserves within equity (i.e. between the Revaluation reserve and Retained earnings).

FVTPL

The Group's financial assets that do not meet the criteria to be measured at amortised cost or FVOCI are measured at FVTPL. This includes any equity instruments and fixed income securities held by the Group. Movements in fair value are recognised within administrative expenses in the statement of comprehensive income.

Impairment of financial assets

Under IFRS 9, for financial assets measured at amortised cost, the Group assesses the ECL. With respect to loan receivables, as the Group has adopted the simplified approach the loss allowance is equal to the lifetime ECL. Further information on the calculation of ECL is included within Note 22.

Derecognition

Financial assets are derecognised when the contractual rights to the cashflows from the financial assets expire or the Group has either transferred the contractual right to receive the cashflows from that asset, or has assumed an obligation to pay those cashflows to one or more recipients.

16. 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, which is deemed to be up to ten years for Intellectual Property and three years for Software Licences.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at the end of each reporting period. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income within administrative expense. Intangible assets are assessed for impairment on an annual basis with any impairment recognised in the statement of comprehensive income.

Group and Company	Intellectual property	Software licences	Total
	£'000	£'000	£'000
Cost			
At 1 April 2018	18	167	185
Additions	1	18	19
At 31 March 2019	19	185	204
Additions	-	102	102
At 31 March 2020	19	287	306
Amortisation			
At 1 April 2018	10	68	78
Charge for the year	4	61	65
At 31 March 2019	14	129	143
Charge for the year	3	46	49
At 31 March 2020	17	175	192
Net book value			
At 31 March 2020	2	112	114
At 31 March 2019	5	56	61

Intellectual property comprises the costs associated with acquiring trademarks and patents. Software licences comprises the costs related to externally provided bespoke software.

Impairment of intangible assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication of 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. Any impairment is recognised in the statement of comprehensive income. Any previously recognised impairment losses are 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.

17. Property, plant & equipment

Property, plant and equipment is stated at cost less depreciation and any provision for impairment. The cost of an asset includes all expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. At each reporting date, property, plant and equipment is assessed for indications of impairment. Any impairment is recognised in the statement of comprehensive income in the year in which it occurs.

Depreciation is recognised within administrative expenses in the statement of comprehensive income and is provided at rates calculated to write off the cost of the assets, less their estimated residual value, over the useful economic life of the assets, as follows:

Fixtures and fittings	3 years
Office equipment	3 years
Property and leasehold improvements	The term of the lease
Advertising hardware	5 years
Motor Vehicles	30% reducing balance

Right of use ("RoU") assets

Upon the recognition of a lease liability (see Note 29 for further details) a corresponding RoU asset is recognised. This is adjusted for any initial direct costs incurred, lease incentive paid or received, and any restoration costs at the end of the lease. The RoU asset is depreciated on a straight-line basis over the life of the lease. All RoU assets are reviewed annually for indicators of impairment.

Group	Property and leasehold improvements	Office equipment	Fixtures and fittings	Advertising hardware	Motor vehicles	Right of use asset	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 April 2018	1,011	554	326	1,117	78	-	3,086
Additions	-	63	22	-	18	-	103
Subsidiary assets sold	-	-	-	(1,117)	-	-	(1,117)
Disposals	(4)	(46)	(16)	-	(58)	-	(124)
At 31 March 2019	1,007	571	332	-	38	-	1,948
IFRS 16 transition adjustment	-	-	-	-	-	3,833	3,833
At 1 April 2019	1,007	571	332	-	38	3,833	5,781
Additions	-	767	2	-	27	-	796
Disposals	-	(460)	(308)	-	(38)	-	(806)
At 31 March 2020	1,007	878	26	-	27	3,833	5,771
Depreciation							
At 1 April 2018	471	372	277	437	26	-	1,583
Charge for the year	201	125	44	-	1	-	371
Subsidiary assets sold	-	-	-	(437)	-	-	(437)
Elimination on disposals	(1)	(20)	(10)	-	(9)	-	(40)
At 31 March 2019	671	477	311	-	18	-	1,477
Charge for the year	201	190	12	-	10	847	1,260
Elimination on disposals	-	(460)	(308)	-	(22)	-	(790)
At 31 March 2020	872	207	15	-	6	847	1,947
Net book value							
At 31 March 2020	135	671	11	-	21	2,986	3,824
At 31 March 2019	336	94	21	-	20	-	471

Company	Property and leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Right of use asset £'000	Total £'000
Cost						
At 1 April 2018	1,007	508	310	-	-	1,825
Additions	-	63	22	18	-	103
At 31 March 2019	1,007	571	332	18	-	1,928
IFRS 16 transition adjustment	-	-	-	-	3,833	3,833
At 1 April 2019	1,007	571	332	18	3,833	5,761
Additions	-	767	2	27	-	796
Disposals	-	(460)	(308)	(18)	-	(786)
At 31 March 2020	1,007	878	26	27	3,833	5,771
Depreciation						
At 1 April 2018	470	352	267	-	-	1,089
Charge for the year	201	125	44	1	-	371
At 31 March 2019	671	477	311	1	-	1,460
Charge for the year	201	190	12	10	847	1,260
Depreciation on disposal	-	(460)	(308)	(5)	-	(773)
At 31 March 2020	872	207	15	6	847	1,947
Net book value						
At 31 March 2020	135	671	11	21	2,986	3,824
At 31 March 2019	336	94	21	17	-	468

18. Finance leases (policy applicable from 1 April 2019)

Upon the adoption of IFRS 16, a finance lease asset has been recognised in relation to future income from sub-leasing arrangements. The finance lease asset was initially measured as the present value of the future lease income discounted using the Group's incremental borrowing rate and is subsequently measured at amortised cost. This sub-lease had been previously treated as an operating lease under IAS 17.

19. Financial assets held at fair value*Fair value measurement*

The Group uses valuation techniques that are appropriate 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 financial assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy 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 at the end of each reporting period.

The following table provides the fair value measurement hierarchy of the Group's investments. The valuation date for all investments was 31 March 2020.

Group and Company	Level 3
	£'000
Equities	12,158
Investments measured at fair value through OCI	12,158

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

	Level 1	Level 3	Group Total	Company Total
	£'000	£'000	£'000	£'000
Valuation at 1 April 2019	1,998	13,337	15,335	13,337
Disposals	(1,998)	-	(1,998)	-
Revaluation recognised through OCI	-	(1,179)	(1,179)	(1,179)
Valuation at 31 March 2020	-	12,158	12,158	12,158

The revaluation of investments held at year-end is taken through other comprehensive income within the consolidated statement of comprehensive income.

At 31 March 2020, there were no Level 1 investments as the externally managed investment portfolio was disposed of during the year. The Level 3 investment represents the Company's investment in Plenti Group Limited. The valuation technique for this investment has changed during the year. In the prior year the fair value was based upon the implied share price from the most recent fund raise in November 2018.

Significant accounting estimate – Fair value of non-listed equity investment

Given there have been no further fund raises, at the reporting date the fair value of the unlisted equity investment in Plenti Group Limited has been estimated by performing an analysis of comparable companies. This required the Company to compare the fair value of Plenti Group Limited to other similar businesses by reviewing trading multiples including size of loan book, value of loan originations and revenues. This approach requires management to make certain judgements including determining the most relevant trading multiples and the selection of suitably comparable companies.

Since the outbreak of COVID-19 a large degree of uncertainty has been introduced into the economic landscape and this in turn has increased the level of subjectivity with regard to company valuations. The directors are cognisant of the inherent risks when valuing an unlisted equity investment and have considered the appropriateness of the valuation method and ultimately the value assigned to the investment in Plenti Group Limited. As part of the valuation process the directors took into consideration Plenti Group Limited's forthcoming initial public offering of ordinary shares and listing on the Australian Stock Exchange which is expected to occur in 2020.

20. Stock

Stock is valued at the lower of cost and net realisable value. Net realisable value is based upon the estimated selling price less any cost of disposal. Any movement in the provision for obsolescence and slow-moving stock is recognised in the statement of comprehensive income. The only assets classified as stock, in the current and prior years, are repossessed motor vehicles arising from borrower default in respect of the Group's loan receivables (as per Note 22).

21. Cash & 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. As at 31 March 2020, the Group did not hold any cash equivalents.

22. Loan receivables*Lessor accounting*

Where assets are provided by the Company under lease purchase agreements, that transfer substantially all the risk and rewards incidental to ownership, the assets are treated as if they had been sold outright and the corresponding asset to the Company is included as a lease debtor. Receipts from lease debtors are treated as consisting of capital and interest elements and the interest is credited to the statement of comprehensive income using the effective interest rate method.

Accounting estimate – Impairment of loan receivables

The Group exercises judgement in measuring and recognising provisions related to loans made to individuals that have acquired vehicles under hire purchase contracts. Estimates are used to assess the probability and quantum of credit losses within the loan portfolio based on historic performance and utilising macroeconomic overlays. Due to the inherent uncertainty in this evaluation process, actual credit losses may be different from the provision.

Loss allowance for loan receivables

The Group's loan receivables represent motor financing loans and qualify as lease receivables under IFRS 9. As per IFRS 9, entities that hold lease receivables are permitted to adopt the simplified approach which removes the requirement to monitor financial assets for a significant increase in credit risk as required by the standard three-stage approach. Instead, entities take a more prudent approach whereby the loss allowance for each financial asset is equal to its lifetime ECL. The Group has decided to adopt the simplified approach for its loan receivables.

The ECL for the Group's loan receivables is derived from extrapolated loss curves created using historical credit loss data. In calculating the ECL, forward-looking information is incorporated, such as the impact on future loan performance of certain macroeconomic variables. Significant estimates included within the ECL calculations include the impact of the forward-looking information and the estimates of expected future recovery rates. Significant estimates will be reviewed on an ongoing basis as part of the IFRS 9 review process.

	Group	Company	Group	Company
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Non-current assets				
Loan receivables	329	-	1,781	-
Current assets				
Intra-group loan	-	14,407	-	12,244
Intra-group loan impairment	-	(14,407)	-	(12,244)
Loan receivables	709	-	2,698	-
Total loan receivables	1,038	-	4,479	-

Following an assessment of the intra-group loan, due from APNL Limited to the Company, the loan has been fully provided for in the Company's financial statements.

The maturity analysis of the lease receivables, including the undiscounted lease payments to be received, is as follows:

	2020	2019
	£'000	£'000
Less than 1 year	1,020	4,788
1 – 2 years	380	1,804
2 – 3 years	34	652
3 – 4 years	-	44
4 – 5 years	-	-
Total undiscounted lease payments	1,434	7,288
Unearned finance income	(148)	(1,138)
Impairment provisions	(248)	(1,671)
Total loan receivables	1,038	4,479

23. Trade and other receivables

Trade receivables are recognised at fair value on initial recognition which equates to the amount expected to be receivable on settlement of the asset. All amounts are assessed for impairment based on a consideration of whether the Group or the Company will be able to collect all amounts due according to the original terms of the receivable (using the ECL approach).

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

	Group	Company	Group	Company
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Trade receivables	448	410	1,008	1,023
Prepayments	435	432	822	796
Accrued income	2,229	2,229	2,168	2,133
Other receivables	1,518	2,877	1,208	1,037
Current assets	4,630	5,948	5,206	4,989

24. Investments in subsidiaries

Subsidiary undertakings are all 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 within administrative expenses. Investments in subsidiaries are carried at cost less impairment.

Goodwill is initially measured at cost being the aggregate of the consideration transferred in excess of the fair value of the 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.

Upon the disposal of a subsidiary the difference between the carrying value of net assets sold and the proceeds from disposal is recognised through the statement of comprehensive income.

The consolidated financial statements of the Group include the following UK incorporated entities.

All companies are registered at address:

- (A) 6th Floor, 55 Bishopsgate, London, EC2N 3AS; or
(B) No.1, Osiers Business Centre, Leicester, LE19 1DX.

Company name	% equity interest	Registered address	Principal activity
Direct subsidiaries			
RateSetter Trustee Services Limited	100	A	Marketplace lending
RateSetter Asset Management Limited	100	A	Dormant
Indirect subsidiaries			
RateSetter Motor Limited	100	A	Holding company
Security Trustee Services Limited	100	A	Holding company
APNL Limited	100	A	Dormant
Vehicle Credit Limited	100	B	Motor Finance
Vehicle Stocking Limited	100	B	Motor Finance
Vehicle Stocking A Limited	100	B	Dormant

As at 31 March 2020, the carrying value of the Company's investments in its subsidiaries was £2 (2019: £2). During the year, the Company made additional capital contributions to Vehicle Stocking Limited and Vehicle Credit Limited totalling £1,635k. These contributions are not expected to be recovered as these entities both held net liabilities at 31 March 2020. As a result, these capital contributions were fully impaired during the year with the charge being recognised in the Company's income statement.

Liabilities

This section explains the accounting policies and provides additional details in relation to RateSetter's liabilities.

25. Financial liabilities

All financial liabilities are recognised initially at fair value net of directly attributable transaction costs. The Group classifies its financial liabilities, at initial recognition and for subsequent measurement, as financial liabilities at amortised cost.

Amortised cost

Financial liabilities recognised in the Group's statement of financial position as either loans & borrowings or trade and other payables are classified as financial liabilities at amortised cost. After initial recognition, interest-bearing loans & borrowings are subsequently measured at amortised cost using the effective interest method with all movements recognised in the statement of comprehensive income.

26. Trade & other payables

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

	Group 2020	Company 2020	Group 2019	Company 2019
	£'000	£'000	£'000	£'000
Trade payables	847	797	2,222	2,130
Accruals	1,840	1,796	2,393	2,121
Tax and social security	288	288	223	223
Other payables	199	197	1,021	203
Amounts owed to group undertakings	-	7,879	-	7,899
Current liabilities	3,174	10,957	5,859	12,576

27. Provisions

A provision is recognised if the Group has a present, legal or constructive, obligation resulting from a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Significant accounting estimate – Measurement of provisions for onerous contracts

The Group exercises judgement in measuring and recognising a provision for loan contracts with a negative margin between the borrower rate and the investor rate. Any negative margin is absorbed by the Group and can be either locked-in for the term or might only be temporary from either the borrower repaying or the investor exiting and being refinanced. For these loan contracts, a provision is recognised when it is probable that an outflow of resources 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 the probability of early repayments and defaults. A 1% change in the discount factor results in a £61k movement in the provision. Due to the inherent uncertainty in this evaluation process, actual losses may be different from the provision.

	Group		Company	
	Current	Non-current	Current	Non-current
	£'000	£'000	£'000	£'000
At 1 April 2019	1,665	1,766	2,807	5,194
Arising during the year	465	769	445	768
Released during the year	(175)	-	(175)	(1,178)
Utilised during the year	-	-	-	-
Reclassified during the year	-	-	(1,060)	1,060
At 31 March 2020	1,955	2,535	2,017	5,844

Group only provisions

The Group holds a provision of £771k (2019: £750k) for sums due to HMRC in relation to historical VAT obligations of two Group subsidiaries, of which all is estimated as due within one financial year.

Group and Company provisions

The Group and Company hold a provision of £3,719k (2019: £2,507k) for onerous contracts, being loans with a negative margin, of which £1,184k is estimated as due within one financial year.

Company only provisions

At 31 March 2020, APNL Limited had loans & borrowings of £4,141k, of which £832k is due within one financial year. Following the decision in 2019 to sell APNL Limited's remaining assets and income generating contracts, the Company recognised a provision equal to the outstanding loan balance. This provision is eliminated upon consolidation of the Group accounts.

28. Loans & borrowings

Loans & borrowings represent amounts payable by APNL Limited, Vehicle Credit Limited and Vehicle Stocking Limited to the RateSetter investors. The loans & borrowings will be fully repaid by August 2024 and they continue to amortise monthly with an average interest charge of 7%.

	Group 2020	Group 2019
	£'000	€'000
Loans & borrowings - current	4,547	8,634
Loans & borrowings - non-current	18,078	20,006
Total loans & borrowings	22,625	28,640

29. Leases (policy applicable from 1 April 2019)

At the inception of a contract the Group assesses whether the contract contains a lease. At the commencement of a lease, the Group recognises a lease liability and a RoU asset (see note 17 for further details). The lease liability is initially measured as the present value of the future lease payments discounted using the Group's deemed incremental cost of borrowing.

Significant accounting estimate – Incremental cost of borrowing

The Group uses its deemed incremental cost of borrowing as the discount rate. Following initial recognition, the lease liability is measured using the effective interest method.

Measurement

The lease liability is subsequently re-measured when there is a change to an index or rate used, or when there is a change in expectation that the Group will exercise a purchase option, break clause or even extend the lease. When such an adjustment is made to the lease liability a corresponding adjustment is made to the RoU asset.

The Group has elected not to recognise a lease liability and RoU asset for any leases that have a term less than 12 months or are for an asset which is deemed to be of low value (less than £5k). For these leases, the lease payments are recognised as an expense in the income statement on a straight-line basis over the life of lease.

The Group elected to adopt IFRS 16 under the modified retrospective approach and as such no comparatives are shown for the tables below. All the leases are operating leases and were held off balance sheet under IAS 17.

Summary of lease liabilities

	Group	Company
	£'000	£'000
31 March 2019	-	-
Transition adjustment	4,215	4,215
1 April 2019	4,215	4,215
Additions and modifications	-	-
Disposals	-	-
Lease payments made	(1,122)	(1,122)
Interest on lease liabilities	295	295
31 March 2020	3,388	3,388

Provision Fund assets

This section explains the accounting policies and provides additional details in relation to the Group's restricted assets (and related provisions).

30. Restricted assets

Restricted assets represent the capital held by the Group to compensate investors against the risk of borrower default and the Group has committed to make this capital available to investors in the event of a borrower defaulting. The assets are held in the form of cash, investments and working capital balances. Restricted working capital comprises Trade and other receivables and Trade and other payables specific to Provision Fund activities.

The restricted assets pool represents the proportion of the Group's Provision Fund that is held on the statement of financial position as at the reporting date. It is not equivalent to the value of the Provision Fund. As explained in the Strategic report, the Provision Fund represents both the restricted assets pool plus the value of future contracted income, being credit fees to be received from borrowers over the lifetime of the existing loan portfolio.

The Group charges credit fees to each borrower on the RateSetter platform. The credit fee charged is based on an assessment of creditworthiness of each borrower and is designed to build up a pool of restricted assets that, over the lifetime of the loan portfolio, is in excess of Future Expected Credit Losses. An addition to the restricted assets pool is recognised at the point that credit fees are received by the Group.

	2020	2019
	£'000	£'000
Restricted investments held at fair value	-	1,998
Restricted cash and cash equivalents	7,184	11,091
Restricted working capital	(1,364)	72
Total restricted assets	5,820	13,161

Restricted assets of £5.8m as at 31 March 2020 represent the capital held by the Group to compensate investors against the potential risk of borrower default and the Group has committed to make this capital available to investors in the event of a borrower defaulting. The restricted assets total of £13.2m as at 31 March 2019 included a capital contribution of £0.3m, made by the Group into the Provision Fund in 2015, which was repaid during the year. At the reporting date, the restricted working capital balance represents the net amount payable to, or due from, the Provision Fund in respect of cash collected or payments made on its behalf by the Company.

The restricted assets balance of £5.8m is offset within the statement of financial position by a corresponding Provision Fund Provision (see Note 31 below); reflecting that the restricted assets balance is attributable to investors rather than being available for use on the Group's own account.

During the year the restricted investments, an externally managed investment portfolio, were disposed of and further details can be found in Note 19.

31. Provision Fund provision

The Provision Fund provision represents the extent of the potential liability of the Group to make compensation payments to investors from the restricted assets pool in the event of borrower default. The Group's liability to investors is limited to the value of the assets held in the restricted assets pool at any point in time. As a result, the provision is not equivalent to the overall Future Expected Credit Losses from the loan portfolio held on the RateSetter platform.

To the extent that a surplus of assets exists within the Provision Fund relative to the Future Expected Credit Losses from the loan portfolio, and subject to specific criteria, RateSetter is entitled to recognise this surplus as a Credit Performance Fee. As a result, any such surplus represents deferred income for the Group. To date no such fees have been accrued.

The movement during the year in the value of the Provision Fund provision is as follows:

	2020	2019
	£'000	£'000
At 1 April 2019 / 2018	13,161	10,468
Credit fees	27,997	29,130
Recoveries from borrowers	17,807	16,810
Payments to investors on borrower defaults	(52,452)	(43,557)
Provision Fund provision: current year utilisation	(293)	(142)
Provision Fund provision: re-allocation of gains	-	452
Return of capital contribution	(264)	-
Movement in value of investments	(136)	-
At 31 March 2020 / 2019	5,820	13,161

Other items

This section explains the accounting policies and provides additional details of the items not yet discussed in the previous sections.

32. Share Capital

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.

	2020	2020	2019	2019
	No	£'000	No	£'000
A Ordinary shares of £0.000001 each	6,047,585	-	6,043,235	-
B Ordinary shares of £0.000001 each	619,177	-	452,327	-
Allotted, called up and fully paid shares		-		-

At 31 March 2020, 639,629 A Ordinary shares of the Company (2019: 638,692) were held by the EBT. The shares held are subject to an agreement between the EBT and the employees, stipulating 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 EBT also holds 619,177 B Ordinary shares (2019: 452,327). A Ordinary shares have full voting, dividend and capital distribution rights. B Ordinary shares are non-voting shares and have no rights to income or capital returns until the value of the Company exceeds a pre-determined threshold level. During the year, the Company issued 171,200 (2019: 349,244) shares for a consideration of £16k (2019: £15,048k).

33. Related parties

Investment measured at fair value through OCI

At 31 March 2020, the Company owned 14% of Plenti Group Limited and one of the directors of the Company is also a director of Plenti Group Limited. During the year, the Company received fee income of £34k (2019: £35k) from Plenti Group Limited. In the year, a loss of £1,179k (2019: £3,987k gain) on the valuation of the Company's investment was recognised through other comprehensive income.

Key management personnel

Remuneration payable to key management personnel, deemed to be the directors of the Group and Company, during the year was as follows. The number of directors accruing post-employment benefits was 3 (2019: 3):

	2020	2019
	£'000	£'000
Short-term employment benefits	804	818
Post-employment benefits	58	32
Share-based payments	-	-
Total remuneration	862	850

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

	2020	2019
	£'000	£'000
Short-term employment benefits	237	242
Post-employment benefits	23	13
Share-based payments	-	-
Total remuneration	260	255

34. Analysis of changes in net funds / (debt)

This section provides an analysis of the Group's net funds / (debt):

	At 1 April 2019	Non-cash movements	Cash flow	At 31 March 2020
	£'000	£'000	£'000	£'000
Unrestricted cash and cash equivalents	18,904	-	(12,903)	6,001
Restricted cash and cash equivalents	11,091	-	(3,907)	7,184
Loans & borrowings	(28,640)	-	6,014	(22,625)
	1,355	-	(10,796)	(9,440)

	At 1 April 2018	Non-cash movements	Cash flow	At 31 March 2019
	£'000	£'000	£'000	£'000
Unrestricted cash and cash equivalents	8,229	-	10,675	18,904
Restricted cash and cash equivalents	8,320	-	2,771	11,091
Loans & borrowings	(37,081)	-	8,441	(28,640)
	(20,532)	-	21,887	1,355

35. Subsequent events**COVID-19**

The outbreak of COVID-19 in the UK and the lockdown in March 2020 resulted in significant turbulence across the financial system. Investors' appetite for credit risk reduced and a mass liquidation across asset classes ensued. RateSetter saw a sharp increase in requests for investor liquidity, peaking on 16 March 2020 and then falling back to normal levels over subsequent weeks, which reduced our capacity to lend as we focussed on balancing the demands of our borrowers with investors requesting to exit. However, a backlog of investment release requests remains, and it is taking longer than usual to process these requests. We are continuing to deliver as many requests as possible, processing requests in chronological order in each market, with daily delivery determined by the supply of funds within that market.

Given the deterioration in economic outlook, we materially increased our Future Expected Credit Losses, including adding a macroeconomic overlay. This provisioning was in line with other mainstream lenders. The result was that, for the first time, the Interest Coverage Ratio reduced to below 100%, prompting a temporary interest reduction for all investors which was announced on 4 May 2020. During the temporary interest reduction, expected to be for the remainder of 2020, investors will receive only 50% of their interest with the other 50% being diverted to the Provision Fund, for the protection of all investors.

In light of the uncertainty around returns and liquidity, the platform closed to new investors. It has remained open throughout for existing investors, who continue to invest, and continued to deliver on investment release requests.

Operationally, RateSetter has adapted well to the changed environment. We rapidly enabled employees to move to remote working. Investing and borrowing as well as delivery of customer service has continued uninterrupted from an operational perspective.

Acquisition by Metro Bank

The Group had long-standing plans to raise additional capital in 2020 to continue to grow the business and platform. Following the pandemic outbreak in March 2020, the timeline for these plans accelerated, including exploring the option of a strategic trade sale.

On 15 June 2020, RateSetter entered a period of exclusivity with Metro Bank about the acquisition of RateSetter. Metro Bank had stated in early 2020 that it intended to grow in consumer finance, making the potential combination a natural fit. After a period of due diligence and negotiation, the transaction was announced on 3 August 2020, subject to shareholder and regulatory approval.

On 14 September 2020, the acquisition completed and a capital injection of £18.7m was made by Metro Bank to enable RateSetter to meet its ongoing regulatory capital requirements. In addition, Metro Bank confirmed its intention to provide ongoing capital support, as required, for the foreseeable future. The transaction did not involve RateSetter's holding in Plenti Group Limited which was transferred to shareholders at the time of completion, via a bonus issue of C shares and a subsequent capital reduction.

Metro Bank plans to significantly grow RateSetter's unsecured consumer lending through the RateSetter platform, using the *lending and credit management capability RateSetter has built over the last decade*.

New lending

All new unsecured consumer lending will be funded by Metro Bank, in line with Metro Bank's stated strategy to grow in this area. Existing RateSetter investors will continue to fund the secured lending lines (residential property development, asset finance and family finance) for as long as RateSetter is committed to these lending channels, as well as any new giffgaff loans while RateSetter continues to facilitate them.

Retail investors

Apart from the remaining secured and giffgaff lending, the loan portfolio funded by retail investors will go into run-off and decrease in size over time. RateSetter will not be accepting new retail investors but existing investors can continue to invest in the portfolio. Our focus on investment performance and the management of the Provision Fund, which will continue to protect retail investors, will remain throughout.

Closure of share schemes

As part of the acquisition of RateSetter by Metro Bank, 100% of the A Ordinary and B Ordinary shares of the Company were purchased by Metro Bank and all employee share schemes were closed.