lendinvest

# LendInvest Limited

Financial statements for the year ended 31 March 2019

Company registration number 08146929

# Contents

# Officers and professional advisors

| | |
|---|---|
| Directors | Christian Faes<br>Mattias Ljungman<br>Angelie Panteli<br>Ian Thomas |
| Secretary | Christian Faes |
| Company number | 08146929 |
| Registered office | Two Fitzroy Place, 8 Mortimer Street, London W1T 3JJ |
| Auditors | BDO LLP |
| Bankers | Barclays Bank PLC<br>HSBC Bank PLC<br>RBC Investor Services Bank SA<br>Wells Fargo Bank, N.A., London |

# Strategic report

The directors present their strategic report for LendInvest Limited ("the Company") and its subsidiaries (together "the Group" or "LendInvest") for the year ended 31 March 2019.

## Review of the business

### *Our purpose*

The principal activity of the Group is to provide secured property finance to third party borrowers.

### *Our business model*

LendInvest is a marketplace platform for property finance and it provides three types of secured property lending to borrowers in the form of bridging loans, development loans, (collectively, "short term lending"), and buy-to-let loans. LendInvest originates all loans before funding them using one of four funding sources: the listed retail bonds, the self select platform, the LendInvest Real Estate Opportunity Fund (the "Fund") and financial institutional partnerships. The Group's revenues arise principally from interest and fee income charged to borrowers or as management fee and servicing income received from the Fund and other funding vehicles.

One of the key objectives for LendInvest is to have as wide a variety of investors as possible so a growing, diverse and highly scalable capital base provides it with both flexibility and resilience. The Group has continued to diversify its funding in line with this objective and has expanded its four funding channels during the year. These funding channels enable the efficient funding of loans and constitute the LendInvest marketplace model.

Technology sits at the heart of the Group's business model, it generates efficiencies across the business and provides the Group with scalability as it grows. In the 2018 annual report the Group said it would automate the way in which it allocated funding across the loan book. This deliverable, building a powerful and highly specialised software system called the "Loan Engine", was successfully completed during the financial year, and it was extended to automate the financial reporting of the loan book in the process. The Loan Engine matches funding sources with loans of the most appropriate risk profile, ensuring optimal capital allocation at all times. This is important because the Loan Engine allows LendInvest to significantly grow the loan book and scale the business without increasing headcount or compromising risk.

### *Key events during the year*

The Group has continued to invest in its technology and people with the average headcount increasing to 155 employees during the year ended 31 March 2019 (2018: 128 employees).

There were a number of key events and milestones during the year:

- April 2018: LendInvest Secured Income Plc, a wholly owned subsidiary of the Company, issued notes in the form of sterling denominated 5.375% fixed rate notes due in 2023 and raised £40 million
- August 2018: the Group raised a development funding line in a joint venture with Nomura and Magnetar
- September 2018: CFO Angelie Panteli was appointed to the Board of Directors
- September 2018: the Group closed a successful Series C equity funding round raising £10.3 million
- March 2019: buy-to-let originations in the six months to March 2019 totalled £127.9 million, providing a loan book of over £200m at year end
- March 2019: the Group raised a further £200 million of funding from HSBC to support the move into regulated lending
- March 2019: the Group lent £171 million during the month to professional property investors, developers and landlords marking the business' best month on record

# Results and performance

The results of the Group for the year show a statutory profit from operations of £3.3m and a total equity position of £20.6m.

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

| | Gross management accounts | | IFRS accounts | |
|---|---|---|---|---|
| | **FY 2019** | **FY 2018** | **FY 2019** | **FY 2018** |
| | **Unaudited** | **Unaudited** | **Audited** | **Audited** |
| | £'m | £'m | £'m | £'m |
| Revenue | 72.7 | 53.6 | 46.8 | 35.6 |
| Gross profit | 26.5 | 18.5 | 26.5 | 18.5 |
| Profit from operations | 3.3 | 1.9 | 3.3 | 1.9 |
| EBITDA | 4.0 | 2.2 | n/a | n/a |
| Loans and advances | 788.3 | 467.6 | 388.2 | 204.3 |
| Originations | 747.4 | 536.0 | n/a | n/a |

The unaudited gross management accounts KPIs above include revenue, gross profit, profit from operations, EBITDA and loans and advances arising from the following off balance sheet entities: the LendInvest Real Estate Opportunity Fund, Steorra DAC and the self select platform. Loans and advances held in off balance sheet entities continue to be serviced by the Group. The unaudited gross management accounts revenue and gross profit figures for FY 2018 have been restated to include a gross up of £0.7m for the LendInvest Income Limited Partnership which was consolidated into the IFRS accounts during the year ended 31 March 2018.

During the year under review, statutory revenue increased by £11.2m to £46.8m (2018: £35.6m).
Statutory loans and advances increased by £183.9m to £388.2m (2018: £204.3m).

The Board also monitors the performance of the Group by reference to the following two product lines:

| FY 2019 | Short Term Lending | Buy-to-let lending | Total |
|---|---|---|---|
| | £'m | £'m | £'m |
| Statutory revenue | 42.5 | 4.3 | 46.8 |
| Statutory loans and advances | 170.2 | 218.0 | 388.2 |

# Risks and uncertainties

The group is exposed to and monitors the following risks:

Credit risk: the risk that the Group's loans and advances are subject to borrower default. Credit risk management lies at the core of the business and with the implementation of IFRS 9, the Group has continued to develop its strong credit risk management framework which includes:

- A clearly defined credit risk policy
- The continued recruitment of specialist skills in credit underwriting
- A Credit Committee which meets monthly
- An Impairment & Modelling Committee - specifically formed for the governance of IFRS 9 - which meets quarterly

In addition to managing the credit risk associated with borrowers, the Group manages other risks including:

Brexit/market risk: the UK voted to leave the EU on 23 June 2016. There exists a considerable amount of uncertainty regarding the future relationship between the UK and the EU. Whilst the directors do not currently consider Brexit to be a principal risk for the Group, they note that the Group is focused predominantly on lending against property assets in the UK. A general and persistent weakening of the UK economy and a fall in market sentiment caused by the uncertainty that Brexit may pose, has the potential to impact the performance of the Group's underlying asset recovery. The Group's approach to credit risk however is sufficiently robust such that the directors believe the business could withstand fluctuations in the UK property market in the event of economic uncertainty. By applying the Bank of England's Annual Cyclical Scenario ("ACS") tests, it was shown that the business could withstand a scenario more severe than the Global Financial Crisis of 2008.

Operational risk: the risk that financial loss or reputational damage arises from inadequate or failed processes, people or systems. The Group maintains robust operational systems and controls and through its investment in technology, has invested heavily in building up capabilities for the next stage of growth. The Group has established a Risk Committee and continues its development of a strong risk and compliance function.

Interest rate risk: the risk of financial losses through liability positions sensitive to changes in interest rates. The Group seeks to mitigate this risk by monitoring any movements and reviewing the potential risk on a regular basis. The Group uses derivatives to manage any risk above tolerable levels against funding facilities that carry floating rates where the underlying asset carries a fixed rate of return. Derivatives are carried at fair value with movements in fair value recorded in the statement of profit and loss, and are measured based on valuations obtained from counterparties.

Liquidity risk: the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when 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 and the Assets and Liabilities Committee. A key component of liquidity risk is the Group's funding for the purpose of its long term buy-to-let product. Once the facility is utilised or the term is reached, the buy-to-let portfolio will be refinanced via securitisation.

## Events after the reporting date

In May 2019, LendInvest Secured Income Plc, which is a subsidiary of the Group, sold at par, £15 million of bonds held in treasury at the year end.

In May 2019, the Company confirmed that it had mandated Citi as Sole Arranger, and BNP Paribas, Citi and HSBC as Joint Lead Managers for Mortimer BTL 2019-1 Plc, an RMBS transaction backed by a portfolio of UK buy-to-let loans.

## Future developments

The Group continues to invest in technology in order to continue to scale the business and enable an eventual move into the regulated mainstream mortgage space.

Approved by the Board of Directors and signed on its behalf by:

Ian Thomas
Director
3 June 2019

# Directors' report

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 March 2019.

## Future outlook

See strategic report.

## Financial risk management

The Group reviews its approach to the management of credit, liquidity and other related risks within the strategic report.

## Going concern

On the basis of their assessment of the Group and the Company's financial position, the Company's directors have a reasonable expectation that the Group will be able to continue in operational existence for the foreseeable future. Further information supporting the going concern basis may be found in note 1 of the financial statements.

## Results and dividends

The statutory profit after tax for the year ended 31 March 2019 amounted to £0.6m (2018: £1.7m). Statutory profit before tax is stated after recognition of an accounting loss on the fair value of the interest rate swap. Further details are provided in note 26. The Company paid no dividends during the year (2018: nil) and the directors do not recommend a final dividend.

## Political donations

The Company made no political donations during the year (2018: £5,000 to the Conservative and Unionist Party).

## Events after the reporting date

In May 2019, LendInvest Secured Income Plc, which is a subsidiary of the Group, sold at par, £15 million of bonds held in treasury at the year end.

In May 2019, the Company confirmed that it had mandated Citi as Sole Arranger, and BNP Paribas, Citi and HSBC as Joint Lead Managers for Mortimer BTL 2019-1 Plc, an RMBS transaction backed by a portfolio of UK buy-to-let loans.

## Directors

The directors of the Company who were in office during the year and for the period up to the date of signing the financial statements were:

Christian Faes
Mattias Ljungman
Angelie Panteli (appointed 19 September 2018)
Ian Thomas

## Qualifying third party indemnity insurance

The Company has arranged qualifying third party indemnity insurance for all of its directors.

## Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

BDO LLP have expressed their willingness to continue as auditor.

Approved by the Board of Directors and signed on its behalf by:

Ian Thomas
Director
3 June 2019

# Directors' Responsibility Statement

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

The Companies Act 2006 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 (IFRS) 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 statement of profit and loss of the Group and Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and the Company financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group 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 LendInvest Limited

## Opinion

We have audited the financial statements of LendInvest Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 March 2019 which comprise consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of financial position, company statement of financial position, consolidated statement of cash flows, company statement of cash flows, consolidated statement of changes in equity, company statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent 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 state of the Group's and of the Parent Company's affairs as at 31 March 2019 and of the Group's profit 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 and as applied 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. We are independent of the Group and the Parent 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.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

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

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

We have nothing to report in this regard.

## 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 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 Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Director's 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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent 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, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 at 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Ariel Grosberg (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
3 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Consolidated statement of profit and loss

| | Note | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|---|
| | | £'000 | £'000 |
| Revenue[1] | 5 | 46,825 | 35,617 |
| Cost of sales | 6 | (20,369) | (17,162) |
| **Gross profit** | | **26,456** | **18,455** |
| Administrative expenses | 7 | (19,550) | (14,717) |
| Impairment provisions[2] | | (3,625) | (1,850) |
| **Profit from operations** | | **3,281** | **1,888** |
| Interest income | 10 | 34 | 20 |
| Finance expense | 11 | (2,772) | (99) |
| **Profit before tax** | | **543** | **1,809** |
| Income tax credit / (charge) | 12 | 73 | (159) |
| **Profit after taxation** | | **616** | **1,650** |

1. Revenue is defined as interest and fee income and similar income.
2. Impairment provisions on financial assets during the year ended 31 March 2019 reflect expected credit losses calculated in accordance with IFRS 9. Impairment provisions on financial assets during the year ended 31 March 2018 reflect impairment provisions calculated in accordance with IAS 39. As such, results are not directly comparable.

All amounts relate to continuing activities and to owners of the Group.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 not to present its statement of profit and loss and other comprehensive income.

The profit after tax of the parent company for the year was £4.8m (2018: £2.4m).

# Consolidated statement of other comprehensive income

| | Note | Year ended 31 March 2019 | Year ended 31 March 2018 |
|---|---|---|---|
| | | **£'000** | **£'000** |
| **Profit after taxation** | | 616 | 1,650 |
| Other comprehensive income: | | | |
| Fair value gain on loans and advances measured at fair value through other comprehensive income | 25 | 52 | - |
| Deferred tax debit on fair value adjustment | 12 | (10) | - |
| **Other comprehensive gain for the year** | | 42 | - |
| **Total comprehensive income for the year** | | 658 | 1,650 |

# Consolidated statement of financial position

| | Note | As at 31 March 2019 | As at 31 March 2018 (Restated[1]) |
|---|---|---|---|
| | | £'000 | £'000 |
| Assets | | | |
| Cash and cash equivalents | 18 | 40,081 | 30,266 |
| Trade and other receivables | 17 | 9,843 | 5,980 |
| Loans and advances | 19 | 388,159 | 204,293 |
| Property, plant and equipment | 14 | 880 | 938 |
| Intangible fixed assets | 15 | 3,179 | 752 |
| Deferred taxation | 12 | 243 | - |
| **Total assets** | | **442,385** | **242,229** |
| Liabilities | | | |
| Trade and other payables | 20 | (30,498) | (17,685) |
| Interest bearing liabilities | 21 | (388,147) | (214,432) |
| Derivative financial liabilities | 25 | (2,871) | (99) |
| Deferred taxation | 12 | (255) | (120) |
| **Total liabilities** | | **(421,771)** | **(232,336)** |
| **Net assets** | | **20,614** | **9,893** |
| Equity | | | |
| Employee share reserve | | 455 | 196 |
| Share capital | 22 | - | - |
| Share premium | | 17,278 | 7,000 |
| Fair value reserve | | 549 | - |
| Retained earnings | 23 | 2,332 | 2,697 |
| **Total equity** | | **20,614** | **9,893** |

1. See note 1.20

The financial statements on pages 14 to 75 were approved and authorised for issue by the Board of Directors on 3 June 2019 and were signed on its behalf by:

I. B

Ian Thomas
Director

# Company statement of financial position

| | Note | As at 31 March 2019 | As at 31 March 2018 (Restated[1]) |
|---|---|---|---|
| | | £'000 | £'000 |
| Assets | | | |
| Cash and cash equivalents | 18 | 19,721 | 10,137 |
| Trade and other receivables | 17 | 26,640 | 8,929 |
| Loans and advances | 19 | 15,836 | - |
| Property, plant and equipment | 14 | 880 | 938 |
| Intangible assets | 15 | 2,979 | 752 |
| Investment in subsidiaries | 16 | 14 | 14 |
| Deferred taxation | 12 | 86 | - |
| **Total assets** | | **66,156** | **20,770** |
| Liabilities | | | |
| Trade and other payables | 20 | (19,912) | (10,978) |
| Interest bearing liabilities | 21 | (21,329) | - |
| Deferred taxation | 12 | (126) | (121) |
| **Total liabilities** | | **(41,367)** | **(11,099)** |
| **Net assets** | | **24,789** | **9,671** |
| Equity | | | |
| Employee share reserve | | 455 | 196 |
| Share capital | 22 | - | - |
| Share premium | | 17,278 | 7,000 |
| Fair value reserve | | (2) | - |
| Retained earnings | 23 | 7,058 | 2,475 |
| **Total equity** | | **24,789** | **9,671** |

1. See note 1.20

The financial statements on pages 14 to 75 were approved and authorised for issue by the Board of Directors on 3 June 2019 and were signed on its behalf by:

I. T

Ian Thomas
Director

# Consolidated statement of cash flows

| | Note | Year Ended 31 March 2019 | Year Ended 31 March 2018 (Restated[1]) |
|---|---|---|---|
| **Cash flow from operating activities** | | **£'000** | **£'000** |
| Profit after taxation | | 616 | 1,650 |
| Adjusted for: | | | |
| Depreciation of property, plant and equipment | 14 | 262 | 226 |
| Amortisation of intangible assets | 15 | 454 | 107 |
| Company share and share option schemes | 24 | 259 | 54 |
| Interest income | 10 | (34) | (20) |
| Income tax (credit) / expense | 12 | (73) | 159 |
| Unrealised loss on derivatives | 25 | 2,772 | (99) |
| Impairment provision | 19 | 3,625 | 1,850 |
| **Change in working capital** | | | |
| Decrease / (increase) in gross loans and advances | 19 | (187,733) | (111,532) |
| Decrease / (increase) in trade and other receivables | 17 | (4,454) | (1,414) |
| Decrease / (increase) in trade and other payables | 20 | 13,338 | 114 |
| Income taxes paid | 12 | (140) | (23) |
| Increase in interest bearing liabilities | 21 | 173,715 | 127,450 |
| **Cash generated from operations** | | **2,607** | **18,522** |
| **Cash flow from investing activities** | | | |
| Purchase of property, plant and equipment | 14 | (204) | (151) |
| Capitalised development costs | 15 | (2,662) | (839) |
| Interest income | 10 | 34 | 20 |
| **Net cash from investing activities** | | **(2,832)** | **(970)** |
| **Cash flow from financing activities** | | | |
| Proceeds from an equity share issue | | 10,278 | - |
| Equity raise costs | | (238) | - |
| **Net cash from financing activities** | | **10,040** | - |
| **Net increase in cash and cash equivalents** | | **9,815** | **17,552** |
| Cash and cash equivalents at beginning of the period | 18 | 30,266 | 12,714 |
| **Cash and cash equivalents at end of the period** | 18 | **40,081** | **30,266** |

1. See note 1.20

# Company statement of cash flows

| | Note | Year Ended March 2019 | Year Ended March 2018 (Restated[1]) |
|---|---|---|---|
| **Cash flow from operating activities** | | **£'000** | **£'000** |
| Profit after taxation | | 4,821 | 2,358 |
| Adjusted for: | | | |
| Depreciation of property, plant and equipment | 14 | 262 | 226 |
| Amortisation of intangible assets | 15 | 330 | 107 |
| Company share and share option schemes | 24 | 259 | 54 |
| Interest income | | (13) | (17) |
| Income tax expense | | 1,024 | 281 |
| Impairment provision | 19 | 356 | - |
| Other non-cash movements | | 239 | - |
| **Change in working capital** | | | |
| Decrease / (increase) in gross loans and advances | 19 | (16,194) | - |
| Decrease / (increase) in trade and other receivables | 17 | (18,077) | 3,420 |
| Decrease / (increase) in trade and other payables | 20 | 8,097 | (3,888) |
| Income taxes paid | 12 | (141) | (100) |
| Increase in interest bearing liabilities | 21 | 21,329 | - |
| **Cash generated from operations** | | **2,292** | **2,441** |
| **Cash flow from investing activities** | | | |
| *Purchase of property, plant and equipment* | 14 | (204) | (150) |
| Capitalised development costs | 15 | (2,557) | (839) |
| Decrease / (increase) in investment in subsidiaries | 16 | - | 96 |
| Interest income | | 13 | 17 |
| **Net cash from investing activities** | | **(2,748)** | **(876)** |
| **Cash flow from financing activities** | | | |
| Proceeds from an equity share issue | | 10,278 | - |
| Equity raise costs | | (238) | |
| **Net cash from financing activities** | | **10,040** | - |
| **Net increase in cash and cash equivalents** | | **9,584** | **1,565** |
| Cash and cash equivalents at beginning of the period | 18 | 10,137 | 8,572 |
| **Cash and cash equivalents at end of the period** | 18 | **19,721** | **10,137** |

1. See note 1.20

# Consolidated statement of changes in equity

| | Note | Share capital | Share premium | Employee share reserve | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance as at 31 March 2017** | | - | **7,000** | **77** | - | **1,300** | **8,377** |
| Total comprehensive income for the period | | - | - | - | - | 1,650 | 1,650 |
| Recognition of employee share options schemes | 24 | - | - | 54 | - | - | 54 |
| **Balance as at 31 March 2018 (reported)** | | - | **7,000** | **131** | - | **2,950** | **10,081** |
| Prior period restatement - share based payments | 1.20 | | | 65 | | (65) | - |
| Prior period restatement - platform payments | 1.20 | | | | | (188) | (188) |
| **Balance as at 31 March 2018 (restated[1])** | | - | **7,000** | **196** | - | **2,697** | **9,893** |
| Adjustment for change in accounting policy - IFRS 9 Financial Instruments | 2.7 | | | | 507 | (743) | (236) |
| **Balance as at 1 April 2018** | | - | **7,000** | **196** | **507** | **1,954** | **9,657** |
| Profit after taxation | | - | - | - | - | 616 | 616 |
| Issue of new equity and associated costs | | - | 10,278 | - | - | (238) | 10,040 |
| Recognition of employee share options schemes | 24 | - | - | 259 | - | - | 259 |
| Fair value adjustments on loan & advances | | | | | 42 | | 42 |
| **Balance as at 31 March 2019** | | - | **17,278** | **455** | **549** | **2,332** | **20,614** |

1. See note 1.20

# Company statement of changes in equity

| | Note | Share capital | Share premium | Employee share reserve | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Balance as at 31 March 2017** | | **-** | **7,000** | **77** | **-** | **370** | **7,447** |
| Total comprehensive income for the period | | - | - | - | - | 2,358 | 2,358 |
| Recognition of employee share options schemes | 24 | - | - | 54 | - | - | 54 |
| **Balance as at 31 March 2018 (reported)** | | **-** | **7,000** | **131** | **-** | **2,728** | **9,859** |
| Prior period restatement - share based payments | 1.20 | - | - | 65 | - | (65) | - |
| Prior period restatement - platform payments | 1.20 | | | | | (188) | (188) |
| **Balance as at 31 March 2018 (restated[1])** | | **-** | **7,000** | **196** | **-** | **2,475** | **9,671** |
| Issue of new equity and associated costs | | - | 10,278 | - | - | (238) | 10,040 |
| Total comprehensive income for the period | | - | - | - | | 4,821 | 4,821 |
| Recognition of employee share options schemes | 24 | - | - | 259 | | - | 259 |
| Fair value adjustments on loan & advances | | | | | (2) | | (2) |
| **Balance as at 31 March 2019** | | **-** | **17,278** | **455** | **(2)** | **7,058** | **24,789** |

1. See note 1.20

# Notes to the financial statements

## 1. Basis of preparation and significant accounting policies

### *1.1 Going concern*

The Group's business activities together with the factors likely to affect its future development and position are set out in the strategic report. It is on this basis that the directors have continued to prepare the accounts on a going concern basis.

### *1.2 Basis of preparation*

The financial statements have been prepared in accordance with the Companies Act 2006 and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the European Union.

The financial statements have been prepared on a historical cost basis, except as required in the valuation of certain financial instruments which are carried at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in this note 1.

The Group maintains its books and records in pound sterling ("£").

### *Changes in accounting standards and policies since the last published Annual Report*

#### *IFRS 9 – Financial Instruments*

The adoption of IFRS 9 has had a material impact on the financial statements of the Group, and this is disclosed further in note 2. As permitted by the transitional provisions of IFRS 9, the Group has chosen not to restate comparative figures. The initial impact of the adoption of IFRS 9 has been recognised in opening reserves at 1 April 2018.

#### *IFRS 15 – Revenue from contracts with customers*

IFRS 15 Revenue replaces IAS 18 Revenue and IAS 11 Construction Contracts and is now effective. It applies to all contracts with customers except leases, financial instruments and insurance contracts. IFRS 15 establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Interest income, which is the main source of revenue for the Group, falls outside the scope of IFRS 15.

IFRS 15 has been applied for the current year ending 31 March 2019. Management have assessed the impact of application on the Group's financial statements which has resulted in no change to the timing of when the Group recognises revenue or when revenue should be recognised gross as principal or net as an agent. Therefore, there are no material changes to the accounting policies or financial statements of the Group and no adjustment to the opening balance of retained earnings as a result of the adoption of IFRS 15.

*IFRS 2 - Classification and Measurement of Share based Payment Transactions*

The directors of the Group do not anticipate that the amendments to IFRS 2 will have a material impact on the Group's presented figures for the year ended 31 March 2019. Employees (including senior executives) of the Group receive remuneration in the form of share based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using the Black-Scholes option pricing model. That cost is recognised in the share based payment expense, together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). There are no cash settled transactions within the group.

## *New standards and amendments not yet effective*

The following standards and amendments to existing standards have been published. They are mandatory from the financial period beginning on or after the effective dates shown below but are not currently relevant to the Group or Company (although they may affect the accounting for future transactions and events).

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

*IFRS 16 - Leases*

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). It is effective for accounting periods beginning on or after 1 January 2019

All leases result in a company (the lessee) obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing.

Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit and loss.

The directors of the Group do not anticipate that the application of this standard will have a material impact on the Group's statement of profit and loss but will result in the recognition of a right to use asset and a lease liability of approximately £7.5m on the statement of financial position.

*IFRIC 23 - Uncertainty over Income Tax Positions*

IFRIC 23 is effective from accounting periods starting on or after the 1 January 2019 and will be implemented in the next financial year. IFRIC 23 clarifies how to recognise and measure current and deferred income tax assets and liabilities when there is uncertainty over income tax treatments. The directors of the Group do not anticipate that the application of this standard will have a material impact on the Group's statement of profit and loss.

## *1.3 Foreign currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which they operate (their "functional currency") and are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the statement of profit and loss. The financial statements are presented in pounds sterling, which is the Group's and the Company's functional currency.

## *1.4 Investments in subsidiaries*

Investments held as fixed assets are stated at cost less any provision for impairment. Where the recoverable amount of the investment is less than the carrying amount, impairment is recognised.

## *1.5 Basis of consolidation*

### *Subsidiary companies and other controlled entities*

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company as if they were a single entity.

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the Company to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

If the Company were to hold a significant but less than a majority of voting rights but could assert power within the relationship (i.e. "de facto power") the investee would also be classed as a subsidiary. No subsidiaries have been consolidated in the current financial year using this approach.

The subsidiaries listed in note 16 are consolidated as the Group controls 100% of the voting share capital of each, is subject to variable returns of each and has the power to influence those variable returns.

Intra-Group transactions, balances and unrealised gains or losses are eliminated on consolidation.

### *Business combinations*

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

## *1.6 Revenue recognition*

Revenue represents interest and other income from borrowers and for the provision of finance. Revenue recognised on loans held by related and third parties is recognised as follows:

*Recognised under IFRS 9:*

- Interest on loans and advances made by the group is recognised in the consolidated statement of profit and loss using the effective interest rate method. See note 2.4 for further details
- Origination fee income represents arrangement, valuation, introduction, and other broker fees earned from borrowers which are amortised over the life of the loan or recognised immediately upon sale of the loan

*Recognised under IFRS 15:*

- Advisory fees represent management, incentive and performance fees received from off balance sheet entities. These fees are recognised in the statement of profit and loss when the service is performed.

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Group's activities.

All revenue recorded in the financial statements is generated in the UK and sourced from transactions relating to property loans. Fees on these transactions are calculated based on the above revenue recognition policy.

The Group considers its provisioning policy in accordance with IFRS 9 – Financial instruments.

## 1.7 Fees and commission paid

Fees and commission are recognised as follows:

- Origination fees, representing valuation and broker fees, are considered as incremental costs that would not have been incurred if the loan had not been originated. These fees are amortised over the life of the loan
- Funding line amortisation of initial funding line set up costs. These are recognised evenly over the life of the facility
- Advisory fees, representing introducer fees, and trail commission derived from off balance sheet funds. These costs are recognised as they occur

## 1.8 Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, the cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic life. It is provided at the following rates:

| | |
|---|---|
| Computer equipment | 33 - 50% per annum straight line |
| Furniture and fittings | 20 - 50% per annum straight line |
| Leasehold improvements | lesser of lease period or useful life |

## 1.9 Intangible fixed assets

Where they meet the criteria of IAS 38, internally developed expenditure is capitalised as an intangible fixed asset and is amortised on a straight-line basis over its useful economic life once the asset is available for use. The useful economic life of the assets are identified as part of the project planning stage in line with wider business objectives. The assets are amortised over their expected useful life at 33% per annum.

Software licenses are initially recognised at cost. Depreciation is provided so as to write off their carrying value over their expected useful economic life at the following rates:

| | |
|---|---|
| Computer and telephony software | 20 - 50 % per annum straight line |

## 1.10 Interest receivable

Interest receivable on bank deposits is recognised on an accruals basis within "Interest Income" in the statement of profit and loss.

## 1.11 Administration expenses

Expenses are recognised as an expense in the statement of profit and loss in the period in which they are incurred (on an accruals basis).

## 1.12 Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount and contingent liabilities and contingent assets are dependent on one or more uncertain future events. Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as provisions is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

## 1.13 Share capital

Financial instruments issued by the Group are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

## 1.14 Share based payments

Where the issuance of shares or rights to shares are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

## *1.15 Leased assets*

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor. Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

## *1.16 Current and deferred taxation*

The tax expense for the period comprises current and deferred tax. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the year end date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affect neither accounting nor taxable profit and loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted at the year-end date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax balances are not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## *1.17 Dividends*

Dividends are recognised when they become legally payable. In the case of interim dividends to ordinary and preferred share shareholders, this is when paid by the Group. In the case of final dividends to ordinary and preferred share shareholders, this is when declared by directors and approved by the shareholders at the relevant board meeting.

## *1.18 Write-offs*

Loans and advances are written off (either partially or in full) when the prospect of recovery is limited or uncertain. This is generally the case when the primary security has been realised and the Group is unable to reach an agreement with the borrower for immediate or short term repayment of the amounts subject to the write-off. Write-offs constitute a derecognition event as detailed in note 2.2. Financial assets that are written off can still be subject to enforcement activities in order to recover amounts due. Amounts subsequently recovered on assets previously written off are recognised in impairment losses on financial assets in the statement of profit and loss.

## *1.19 Critical accounting estimates and judgements*

The preparation of these financial statements in accordance with IFRS requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies.

### *Judgements*

**Consolidated financial statements**

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

The Group has a number of associated entities that it considers for consolidation under IFRS 10. Control is reassessed and judgement is used whenever facts and circumstances indicate that there may be a change in these elements of control. LendInvest Income Limited Partnership was not consolidated in prior years but, due to the commitment of support given to it by LendInvest Limited, it was consolidated in the year to 31 March 2018 and in the current year.

### *Estimates and assumptions*

**Fair value measurement**

A number of assets and liabilities included in the Group's financial statements require disclosure of fair value. The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy').

Level 1: Quoted prices in active markets for identical items
Level 2: Observable direct or indirect inputs other than Level 1 inputs
Level 3: Unobservable inputs (i.e. not derived from market data and require a level of estimates and judgements within the model).

See note 25 for more detailed information related to fair value measurement.

**Loan provisioning**

The Group provides for the expected credit losses in accordance with IFRS 9 (see note 2).

**Valuation of share based payments**

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

# 1.20 Changes in prior year figures

## Group adjustments

The Group has restated its March 2018 comparative figures due to an assessment of the costs relating to the share based payment. The calculation was reassessed in the current year and the charge in the prior year was understated as it was calculated using a straight line basis rather than the accelerated method under IFRS 2. The Group has also adjusted its March 2018 comparative figures due to an assessment of the self select platform position. The position was reassessed in the current year and the amount recognised in prior years as interest expense was understated.

| | **As at 31 March 2018 (reported)** | | | **As at 31 March 2018 (Restated)** |
|---|---|---|---|---|
| | **£'000** | | | |
| **Assets** | | Adj 1 | Adj 2 | |
| Cash and cash equivalents | 30,266 | - | - | 30,266 |
| Trade and other receivables | 5,980 | - | - | 5,980 |
| Loans and advances | 204,293 | - | - | 204,293 |
| Property, plant and equipment | 938 | - | - | 938 |
| Intangible fixed assets | 752 | - | - | 752 |
| **Total assets** | **242,229** | - | - | **242,229** |
| **Liabilities** | | | | |
| Trade and other payables | (17,596) | - | (188) | (17,784) |
| Interest bearing liabilities | (214,432) | - | - | (214,432) |
| Deferred taxation | (120) | - | - | (120) |
| **Total liabilities** | **(232,148)** | - | **(188)** | **(232,336)** |
| **Net assets** | **10,081** | - | **(188)** | **9,893** |
| **Equity** | | | | |
| Employee share reserve | 131 | 65 | - | 196 |
| Share capital | - | - | - | - |
| Share premium | 7,000 | - | - | 7,000 |
| Retained earnings | 2,950 | (65) | (188) | 2,697 |
| **Total equity** | **10,081** | - | **(188)** | **9,893** |

## *Company Adjustments*

| | As at 31 March 2018 (reported) £'000 | | | As at 31 March 2018 (Restated) |
|---|---|---|---|---|
| **Assets** | | Adj 1 | Adj 2 | |
| Cash and cash equivalents | 10,137 | - | - | 10,137 |
| Trade and other receivables | 8,929 | - | - | 8,929 |
| Property, plant and equipment | 938 | - | - | 938 |
| Intangible fixed assets | 752 | - | - | 752 |
| Investment in subsidiaries | 14 | - | - | 14 |
| **Total assets** | **20,770** | **-** | **-** | **20,770** |
| **Liabilities** | | | | |
| Trade and other payables | (10,790) | - | (188) | (10,978) |
| Deferred taxation | (121) | - | - | (121) |
| **Total liabilities** | **(10,911)** | **-** | **(188)** | **(11,099)** |
| **Net assets** | **9,859** | **-** | **(188)** | **9,671** |
| **Equity** | | | | |
| Employee share reserve | 131 | 65 | - | 196 |
| Share capital | - | - | - | - |
| Share premium | 7,000 | - | - | 7,000 |
| Retained earnings | 2,728 | (65) | (188) | 2,475 |
| **Total equity** | **9,859** | **-** | **(188)** | **9,671** |

# 2. Impact of adoption of IFRS 9 - Financial Instruments

## 2.1 Introduction

IFRS 9 - Financial Instruments was adopted by the Group from 1 April 2018. The standard replaces IAS 39 - Financial Instruments: Recognition and Measurement and has three sections:

Classification and measurement - the standard introduces new categories for the classification and measurement of financial assets. The classification of assets requires an assessment of the Group's business model for managing the assets and of the contractual cash flow characteristics of the assets. This has resulted in some changes to the classification of assets for the Group (see note 2.6) and has had a material impact on carrying values in the Statement of Financial Position at 1 April 2018.

Impairment - under IAS 39, impairment loss provisions were calculated on an incurred loss model, whereby provisions were recognised once an impairment 'trigger' event had been identified. IFRS 9 changes this model to an expected credit loss ("ECL") model which incorporates forward looking information such that when a financial asset is first recognised, an impairment loss allowance is made for the expected losses from defaults over the following 12 months ("12 month ECL"). If, at a later time, the Group determines that there has been a significant increase in the credit risk of the asset, this impairment loss is increased to cover the expected losses over the whole life of the asset ("lifetime ECL"). This change in the calculation of impairment provisions results in earlier recognition of credit losses in the financial statements but does not change the amount of the eventual loss suffered. This change has resulted in an increase in the Group's impairment provisions, as detailed in note 2.8.

Hedge accounting - IFRS 9 alters the rules for the application of hedge accounting, although the rules in relation to portfolio fair value hedges are still under development. The Group does not apply hedge accounting, so this section is not relevant for the current financial period.

The adoption of IFRS 9 resulted in a reduction in equity attributable to shareholders at 1 April 2018 of £0.2m, as detailed in note 2.7. As permitted by the standard, the Group does not intend to restate comparative figures in its 2019 Annual Report.

## 2.2 Accounting policy - financial instruments

The new accounting policy adopted by the Group from 1 April 2018 in relation to financial instruments is detailed below:

### *(i) Classification and measurement*

In accordance with IFRS 9, the Group has classified its financial assets with reference to both the Group's business model for managing the assets and the contractual cash flow characteristics of the assets. The Group's financial assets have been classified into the following categories:

At **amortised cost**, these are assets for which the business model is to hold the asset and collect the contractual cash flows, and those cash flows are solely payments of principal and interest. This means that cash flows typically occur on pre-determined dates and that interest primarily reflects the time value of money, compensation for credit risk and a profit margin.

The Group has classified the following assets as 'at amortised cost': cash in hand and balances, trade and other receivables and the rental deposit. Assets held at amortised cost are initially recorded at fair value (usually transaction price) plus any directly attributable costs. They are subsequently measured using the effective interest rate method.

At **fair value through other comprehensive income (FVOCI),** these are categories of assets for which the business model is to hold the asset and collect the contractual cash flows or to sell the assets. The contractual cash flows must be solely payments of principal and interest. The Group holds loans and advances that are considered to meet the definition of the hold or sell business model. They are therefore classified as 'at FVOCI'. These assets are initially recognised at fair value plus any attributable costs. Subsequent changes in fair value are recognised in equity, except for impairment provisions which are recognised in the statement of profit and loss.

All **financial liabilities** are classified as 'at amortised cost', with the exception of derivative financial instruments which under IFRS 9 are mandatorily classified as 'at fair value through the statement of profit and loss' and certain shares on which the return is linked to the performance of specific stock market indices, which are also classified as 'at fair value through the statement of profit and loss'. Financial liabilities are initially recorded at their fair value, and those to be measured at amortised cost are subsequently measured using the effective interest rate method.

Derivatives are carried at fair value with movements in fair values recorded in the statement of profit and loss. Derivative financial instruments are principally valued based on valuations obtained from counterparties. All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative.

*(ii) Derecognition of financial assets and liabilities*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has substantially transferred all risks and rewards of ownership. If substantially all risks and rewards have been neither retained nor transferred the assets continue to be recognised to the extent of the Group's continuing involvement. Financial liabilities are derecognised when they are extinguished.

## 2.3 Accounting policy - impairment of financial assets

The new accounting policy adopted by the Group from 1 April 2018 in relation to the impairment of financial assets is detailed below:

Impairment provisions are calculated for all financial assets held at amortised cost or at fair value through other comprehensive income. Loss provisions are also held against undrawn loan commitments, where a loan offer has been issued to a customer and remains unexpired but the loan has not yet completed and so has not yet been recognised in the Statement of Financial Position.

Impairment provisions are calculated on an expected credit loss (ECL) basis. Financial assets are classified individually into one of the categories below:

- Stage 1 – assets are allocated to this stage on initial recognition and remain in this stage if there is no significant increase in credit risk since initial recognition. Impairment provisions are recognised to cover 12 month ECL, being the proportion of lifetime ECL arising from default events expected within 12 months of the reporting date

- Stage 2 – assets where it is determined that there has been a significant increase in credit risk since initial recognition, but where there is no objective evidence of impairment. Impairment provisions are recognised to cover lifetime ECL

- Stage 3 – assets where there is objective evidence of impairment, i.e. they are considered to be in default. Impairment provisions are recognised against lifetime ECL. For assets allocated to Stage 3, interest income is recognised on the balance net of impairment provision

- Purchased or originated credit impaired ("POCI") - POCI assets are financial assets that are credit impaired on initial recognition. On initial recognition they are recorded at fair value. ECLs are only recognised or released to the extent that there is a subsequent change in the ECLs. Their ECL is always measured on a lifetime basis.

If a loss is ultimately realised, it is written off against the provision previously made. Any subsequent recoveries are recognised directly in the statement of profit and loss as they arise.

*Impairment of loans and advances to customers*

The primary driver in determining whether an individual loan has had a significant increase in credit risk is a quantitative assessment of the increase in lifetime PD. At each reporting date, a third party credit score is obtained and a movement of three or more levels downwards is regarded as a significant increase in credit risk and the loan is allocated to Stage 2.

In addition to the above, a number of qualitative criteria have been set such that loans which are considered to have a significantly increased credit risk but would not be captured above are moved to Stage 2. A backstop is also in place such that all loans which are between 21- 30 days past due (depending on which product type they relate to) are moved to Stage 2.

Individual loans are considered to be in default and are allocated to Stage 3 if the loan is more than 60 or 90 days past due (depending on product type), is subject to certain forbearance activities, is in repossession or if the customer has been identified as bankrupt and is in arrears by more than a nominal amount.

ECL is calculated by multiplying loss given default ("LGD"), probability of default ("PD") and exposure at default ("EAD"). Each element of the calculation is modelled at individual account level on a monthly basis over the remaining life of the loan, with the first 12 months totalled to obtain the 12 month ECL and the lifetime ECL obtained by totalling the above over the full life of the loan. Modelling assumptions are based on historical data analysis of the impact of economic variables on loan behaviour.

Provisions are assessed on a loan-by-loan basis for stage 3 loans where the underlying loan balance is greater than £500,000 and the loan to value is greater than 75%. Individual Stage 3 ECL on loans and advances to customers are calculated based on an assessment of the expected cash flows and the underlying collateral. All individually assessed loans are reviewed at the Group Impairment and Modelling Committee.

The overall ECL recorded in the financial statements is calculated as the probability weighted ECL over a range of possible forecasted macroeconomic scenarios. The Group uses 40% / 30% / 30% base case / downside view / upside view to calculate the final ECL provision. The Group is not large enough to have an internal economist so the scenarios are provided by Oxford Economics, a third party forecasting and quantitative analysis provider.

## *2.4 Accounting policy - interest income and expense*

The new accounting policy adopted by the Group from 1 April 2018 in relation to interest income and expense is detailed below:

Interest income and expense on all financial instruments is recognised in interest receivable or payable in the statement of profit and loss. Interest income, any fees considered an integral part of effective interest rate of the loan and interest expense are calculated using the effective interest rate method for financial assets and liabilities held at amortised cost and at FVOCI.

The effective interest rate method is a method of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument.

Specifically, for loans and advances, the effect of this policy is to spread arrangement, broker and valuation fees, and costs directly attributable and incremental to setting up the loan, over the expected life of the contractual period.

## *2.5 Critical judgements and accounting estimates*

Wherever possible, the application of the requirements of IFRS 9, in particular in respect of the calculation of impairment loss provisions for loans and advances to customers, has been performed using statistical modelling rather than management judgements or estimates. For the UK residential mortgage portfolio, loss given default ("LGD") and probability of default ("PD") are modelled based on an analysis of how macroeconomic variables have impacted the performance of loans with similar credit risk characteristics historically.

The areas of IFRS 9 which are considered to have required significant management judgements or estimates are detailed below.

### *(i) Critical judgements and key sensitivity analysis*

**Classification of financial assets** - management judgement was applied to the assessment of whether contractual cash flows are solely payments of principal and interest. Management determined that term extensions and forbearance activity are not contractual so do not impact on the assessment.

**Significant increase in credit risk** - the determination of how significant an increase in lifetime PD should be to trigger a move to Stage 2 for impairment requires significant judgement. Management have adopted a test based approach to derive objective thresholds such that credit deterioration is recognised at the appropriate point.

**Fair value measurement** - judgements were applied to determine the unobservable inputs to the fair value models used to calculate the fair values of loans and advances. These include the discount rate, prepayment rates, PDs, LGDs, recovery costs and cure probabilities driven from the ECL models.

**Sensitivity analysis** - sensitivity analysis has been completed on three distinct scenarios. The first being an increase in the forced sale discount by 10%. This would give rise to an increase in the total ECL of the book of £0.4m. Secondly, a 100% downside scenario has been applied to the portfolio. This would give rise to an increase in the modelled ECL provision of £0.3m. Thirdly, a 100% upside scenario was applied to the portfolio. This would result in a reduction of the modelled ECL provision of £0.2m.

### *(ii) Accounting estimates*

The accounting estimates with the most significant impact on the calculation of impairment loss provisions under IFRS 9 are macroeconomic variables, in particular UK house price inflation and unemployment, and the probability weightings of the macroeconomic scenarios used.

The Group has used three macroeconomic scenarios, which are considered to represent a range of possible outcomes over a normal economic cycle, in determining impairment loss provisions:

- a central scenario aligned to the Group's business plan;
- a downside scenario as modelled in the Group's risk management process; and
- an upside scenario representing the impact of modest improvements to assumptions used in the central scenario.

The central scenario represents management's current view of the most likely economic outturn. During the year, the Group has assigned a weighting of 40% / 30% / 30% to the central, downside and upside scenarios in the ECL model.

Changes to macroeconomic assumptions, as expectations change over time, are expected to lead to volatility in impairment loss provisions and may lead to pro-cyclicality in the recognition of impairment provisions.

## *2.6 Changes to classification and measurement of financial instruments*

| | Measurement category under IAS 39 | Measurement category under IFRS 9 | Carrying amount under IAS 39 as at 31 March 2018 (Restated[3]) | Carrying amount under IFRS 9 as at 1 April 2018 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Financial assets** | | | | |
| Cash and cash equivalent | Amortised cost | Amortised cost | 30,266 | 30,266 |
| Loans and advances | Amortised cost | FVOCI[1] | 204,293 | 204,001 |
| Trade and other receivables | Amortised cost | Amortised cost | 3,779 | 3,779 |
| **Total financial assets** | | | **238,338** | **238,046** |
| **Liabilities** | | | | |
| Trade and other payables | Amortised cost | Amortised cost | (17,342) | (17,342) |
| Interest bearing liabilities | Amortised cost | Amortised cost | (214,432) | (214,432) |
| Derivative financial instrument | FVTPL[2] | FVTPL | (99) | (99) |
| **Total financial liabilities** | | | **(231,873)** | **(231,873)** |

1. Fair value through other comprehensive income
2. Fair value through the statement of profit and loss
3. See note 1.20

## *2.7 Reconciliation of the statement of financial position balances from IAS 39 to IFRS 9*

The table below reconciles the carrying amounts of financial assets and liabilities under IAS 39 to those under IFRS 9 on initial adoption of IFRS 9 at 1 April 2018:

| | Under IAS 39 as at 31 March 2018 (Restated[1]) | (i) Reclassification | (ii) Remeasurement | (iii) Remeasurement | Under IFRS 9 as at 1 April 2018 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Assets** | | | | | |
| *At amortised cost* | | | | | |
| Cash and cash equivalent | 30,266 | - | - | - | 30,266 |
| Loans and advances | 204,293 | (204,293) | - | - | - |
| Trade and other receivables | 3,779 | - | - | - | 3,779 |
| Deferred tax | - | - | 174 | - | 174 |
| *At fair value through other comprehensive income* | | | | | |
| Loans and advances | - | 204,293 | (918) | 626 | 204,001 |
| **Liabilities** | | | | | |
| *At amortised cost* | | | | | |
| Trade and other payables | (17,342) | - | - | - | (17,342) |
| Interest bearing liabilities | (214,432) | - | - | | (214,432) |
| Deferred tax | - | - | - | (119) | (119) |
| Derivative financial instrument | (99) | - | - | - | (99) |
| **Equity (Extract)** | | | | | |
| Retained earnings | 2,950 | - | (743) | - | 2,207 |
| Fair value reserve | - | - | - | 507 | 507 |

1. See note 1.20

The changes to carrying values arise due to the following adjustments:

(i) £204m of loans and advances reclassified from amortised cost to FVOCI.

(ii) Impairment provisions remeasured to be calculated on an ECL basis under IFRS 9 and associated tax impact.

(iii) Fair value remeasurement due to reclassification and associated tax impact to FVOCI.

## *2.8 Reconciliation of impairment loss provisions from IAS 39 to IFRS 9*

The table below explains the movements in impairment provisions from those calculated on an incurred loss model under IAS 39 at 31 March 2018 to those calculated on an expected credit loss model under IFRS 9 on initial adoption of IFRS 9 at 1 April 2018. No movement in impairment arises due to changes in measurement category.

| Transition adjustments | On gross loans and advances | On impairment provision | On remeasurement to fair value through OCI | On loans and advances |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Under IAS 39 at 31 March 2018** | **207,021** | **(2,728)** | **-** | **204,293** |
| (i) Reclassification from gross loans and advances to impairment provision | 3,492 | (3,492) | - | - |
| (ii) ECL on assets not individually impaired under IAS 39 | - | (918) | - | (918) |
| (iii) (iv) Transition adjustment to fair value measurement | - | - | 626 | 626 |
| **Under IFRS 9 as at 1 April 2018** | **210,513** | **(7,138)** | **626** | **204,001** |

(i) Under IAS 39, a provision for unrecognised interest was deducted from the gross carrying amount of loans and advances. Under IFRS 9, this has been reclassified to the impairment provision.

(ii) This relates to loans which were not previously individually impaired under IAS 39. The different methodology for calculating impairment provisions under IFRS 9 (ECL) compared to IAS 39 (incurred loss), such as the use of multiple economic scenarios, results in increased provisions being recorded against these accounts.

(iii) The fair value of loans and advances was assessed at 1 April 2018.

(iv) The transition adjustment on impairment provision has increased by £0.1m due to changes following ongoing review of the underlying model.

## *2.9 Analysis of financial assets by stage*

The table below analyses loans and advances to customers and associated ECL by stage on initial adoption of IFRS 9 at 1 April 2018:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Gross loans and advances | 130,807 | 51,065 | 28,640 | 210,512 |
| ECL provision | (229) | (315) | (6,594) | (7,138) |
| Fair value adjustment | 219 | (16) | 424 | 627 |
| Loans and advances | **130,797** | **50,734** | **22,470** | **204,001** |

# 3. Financial risk management

## *General objectives, policies and processes*

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and ensure any limits are adhered to. The Group's activities are reviewed regularly and potential risks are considered. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the business's competitiveness and flexibility.

## *Risk factors*

The Group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk, market risk (including collateral quality risk, interest rate risk and other price risk).

Further details regarding these policies are set out below:

### *(i) Credit risk management*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held at banks. The Group's maximum exposure to credit risk by class of financial asset is as follows:

| | 31 March 2019 | 31 March 2018 |
|---|---|---|
| **Assets** | **£'000** | **£'000** |
| Loans and advances | 388,159 | 204,293 |
| Trade and other receivables | 3,422 | 3,779 |
| Cash and cash equivalents | 40,081 | 30,266 |
| | **431,662** | **238,338** |

The Group manages its exposure to credit losses by assessing borrowers' affordability of loan repayments, risk profile, and stability during the underwriting process. Impairments are monitored and provided for under IFRS 9. The credit policy is designed to ensure that the credit process is efficient for the applicant while providing the Group with the necessary details to make an informed credit decision.

Other receivables principally comprise of amounts due from related companies. The recoverability of these amounts is reviewed on an ongoing basis.

The fair value of cash and cash equivalents at 31 March 2019 and 31 March 2018 approximates the carrying value. Further details regarding cash and cash equivalents can be found in note 18. Credit risk relating to cash and cash equivalents is mitigated as cash and cash equivalents are held with reputable institutions.

The risk of movements in the price of the underlying collateral secured by the Group against loans to borrowers is actively managed by the Group. Security over loan collateral is registered with the Land Registry, and only properties within England, Wales and Scotland are suitable for security. Loans are capped at 75% of the open market value of the property against which security is held, and minimum loan period interest is retained on completion. As a result, the Group has limited exposure to collateral price risk.

### *(ii) Liquidity risk management*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's position. The Group's liquidity position is monitored and reviewed on an ongoing basis by the Board and the Assets and Liabilities Committee. A key component of liquidity risk is the Group's funding for the purpose of its long term buy-to-let lending. Once the facility is utilised or the term is reached, the buy-to-let portfolio will be refinanced via securitisation.

The tables below analyse the Group's contractual undiscounted cash flows of its financial assets and liabilities:

| | Carrying amount | Gross nominal inflow/ (outflow) | Amount due within one year | Amount due post one year |
|---|---|---|---|---|
| As at 31 March 2019 | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | |
| Cash and cash equivalents | 40,081 | 40,081 | 40,081 | - |
| Trade and other receivables | 3,422 | 3,422 | 3,422 | - |
| *Loans and advances* | 388,159 | 543,200 | 153,570 | 389,630 |
| | **431,662** | **586,703** | **197,073** | **389,630** |
| Financial liabilities | | | | |
| Trade and other payables | 30,042 | 30,042 | 30,042 | - |
| Interest bearing liabilities | 388,147 | 425,817 | 24,211 | 401,606 |
| Derivative financial liability | 2,871 | 2,871 | 1 | 2,870 |
| | **421,060** | **458,730** | **54,254** | **404,476** |

| | Carrying amount (Restated[1]) | Gross nominal inflow/ (outflow) | Amount due within one year | Amount due post one year |
|---|---|---|---|---|
| As at 31 March 2018 | £'000 | £'000 | £'000 | £'000 |
| Financial assets | | | | |
| Cash and cash equivalents | 30,266 | 30,266 | 30,266 | - |
| Trade and other receivables | 3,779 | 3,779 | 3,779 | - |
| Loans and advances | 204,293 | 233,114 | 181,390 | 51,724 |
| | **238,338** | **267,159** | **215,435** | **51,724** |
| Financial liabilities | | | | |
| Trade and other payables | (17,342) | (17,342) | (17,342) | - |
| Interest bearing liabilities | (214,432) | (244,133) | (100,234) | (143,899) |
| | **(231,774)** | **(261,475)** | **(117,576)** | **(143,899)** |

1. See note 1.20

### *(iii) Interest rate risk management*

Interest rate risk arises on buy-to-let fixed loans where the funding of these loans is variable based on 3 month LIBOR. The risk is managed on a continuous basis through the use of interest rate swaps.

The Group monitors exposure to repricing risk through an interest rate gap report and matches the repricing characteristics of its assets with its liabilities naturally where it can. The Group uses derivatives to manage any risk above tolerable levels. Derivatives are only used for economic hedging purposes and not as speculative investments.

Derivatives are carried at fair value with movements in fair values recorded in the statement of profit and loss. Derivative financial instruments are principally valued based on valuations obtained from counterparties. All derivatives are classified as assets where their fair value is positive and liabilities where their fair value is negative.

### *(iv) Interest rate sensitivity*

The sensitivity analysis below has been determined based on the exposure to interest rates as at the reporting date. A 100 basis point change represents the board's assessment of a reasonable change in interest rates.

As at the reporting date, if interest rates increased by 100 basis points and all other variables were held constant:

- Profit before tax for the 12 month period would reduce by £0.2m (2018: reduce by £0.5m). Although the Group's interest rates on loans to borrowers is operated as a fixed rate for a fixed period, the Group has the legal right to vary the borrower interest rate if certain changes in interest rates occur. Implementing this provision would reduce the impact of an interest rate increase. However, we have assumed in this sensitivity analysis that the Group has not implemented this provision. Loans from funding lines being a mix of variable and fixed rate denominated.

- Equity reserves as at 31 March 2019 would reduce by £0.2m (2018: reduce by £0.5m) as a result of reduction in profit before tax above.

Due to UK interest rates being near historic lows, interest rates are unlikely to reduce by 100 basis points as this would result in negative interest rates. We have noted below the impact, as at the reporting date, if interest rates reduced by 75 basis points to nil and all other variables were held constant:

- Profit before tax for the 12 month period to 31 March 2019 would increase by £0.15m (2018: increase by £0.5m if rates dropped by 100 basis points). As noted above, the Group's interest rates on loans to borrowers are fixed rate denominated, with certain provisions to vary them, while loans from funding lines are a mix of variable and fixed rate denominated.

- Equity reserves as at 31 March 2019 would increase by £0.15m (2018: increase by £0.5m if rates dropped by 100 basis points) as a result of an increase in profit before tax above.

### *(v) Capital management*

The Group considers its capital to comprise of its share capital, share premium, retained earnings and the employee share reserve. The Group's objectives when maintaining capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Group uses external debt to fund its principal activity and sets the amount of debt that it requires in proportion to risk and lending requirements.

# 4. Segmental analysis

The Group has two reportable operating segments - short term lending and buy-to-let lending. At 31 March 2018 the products were not reviewed by key decision personnel regularly on an individual profit or revenue basis. Revenue, profit/loss and assets of the buy-to-let portfolio were also below the 10% threshold.

Within the Group, the Chief Operating Decision Maker is determined to be the Executive Committee and it uses revenue, interest expense and loans and advances to manage and make decisions on the reportable operating segments.

The following summary describes the operations of the two reportable segments:

## *Short term lending*

Provides finance for borrowers who need to quickly secure property, generate cash flow or fund works through the Group's bridging products, and provides property developers with funding to start or exit a project through development products. The term of these loans are up to 24 months.

## *Buy-to-let lending*

Provides finance for professional portfolio landlords looking to purchase or remortgage buy-to-let investment properties in England, Wales and Scotland. The mortgages are available to both individual and corporate borrowers, and funds are lent against standard properties as well as houses in multiple occupation and multi-unit freehold blocks. The term of these loans is up to 30 years.

| | Short term lending | Buy-to-let lending | Total |
|---|---|---|---|
| **Statement of profit and loss information** | **£'000** | **£'000** | **£'000** |
| Revenue | 42,520 | 4,305 | 46,825 |
| Interest expense | (14,629) | (5,740) | (20,369) |
| **Gross profit** | **27,891** | **(1,435)** | **26,456** |

All other lines in the statement of profit and loss would have been disclosed within a central segment as they are not allocated to either of the above segments. This central segment has not been disclosed.

| | Short term lending | Buy-to-let lending | Total |
|---|---|---|---|
| **Statement of financial position information** | **£'000** | **£'000** | **£'000** |
| **Loans and advances** | **170,254** | **217,905** | **388,159** |

All other lines in the balance sheet would have been disclosed within a central segment as they are not allocated to either of the above segments. This central segment has not been disclosed.

# 5. Revenue

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| Interest on loans and advances | 30,536 | 20,583 |
| Origination fees | 10,207 | 9,369 |
| Advisory fees | 6,082 | 5,665 |
| | **46,825** | **35,617** |

# 6. Cost of sales

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| Interest expense | (14,566) | (10,154) |
| Origination fees | (3,625) | (4,573) |
| Funding line costs | (1,363) | (1,335) |
| Advisory fees | (815) | (1,100) |
| | **(20,369)** | **(17,162)** |

# 7. Profit from operations

Profit from operations has been stated after charging:

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| Wages and salaries | 10,734 | 7,787 |
| Depreciation and amortisation | 716 | 333 |
| Fees payable to the auditors for the audit of the financial statements | 250 | 120 |
| Audit related assurance services | 50 | 35 |
| Fees payable to the auditors for other assurance services | 461 | 68 |
| *Share based payment charge* | 259 | 54 |
| Operating lease expense | 1,140 | 1,140 |
| Research & Development | 500 | 786 |

Other administrative expenses are incurred in the ordinary course of the business and do not require further disclosure under IAS 1.

# 8. Employee benefit expenses

Employee benefit expense (including directors) comprises:

*The Group and Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| Wages and salaries | 10,734 | 7,787 |
| Defined contribution pension cost | 281 | 157 |
| Share based payment charge | 259 | 54 |
| Social security contributions and similar taxes | 1,262 | 912 |
| | **12,536** | **8,910** |

During the year, share options and A2 shares were issued to employees of the Company.

# 9. Number of employees

The average monthly number of employees during the year was:

*The Group and Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | **number** | **number** |
| Technology and product | 39 | 35 |
| Operations and administration | 80 | 60 |
| Sales and marketing | 36 | 33 |
| | **155** | **128** |

### *Key management personnel compensation*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management is defined as the directors of the company listed on page 3.

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Salary | 337 | 240 |
| Short-term non-monetary benefits | 3 | - |
| Defined contribution pension cost | 5 | 5 |
| | **345** | **245** |

Three of the directors were employed and remunerated by the Company during the year. One other director received no remuneration for services to the Company during the year. During the year, A2 shares were issued to a director of the Company.

## 10. Interest income

Aside from bank deposits, the Group does not have sources of income considered to be outside the main revenue generating activities, and therefore has no other operating income.

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Interest on bank deposits | 34 | 20 |
| | **34** | **20** |

## 11. Finance expense

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Change in the fair value of derivatives | (2,772) | (99) |
| | **(2,772)** | **(99)** |

# 12. Taxation on profit on ordinary activities

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Tax expense** | | |
| **Current tax:** | | |
| Current tax on profit for the year | 110 | 202 |
| Adjustments in respect of prior periods | (104) | (73) |
| **Total current tax charge** | **6** | **129** |
| **Deferred tax:** | | |
| Origination and reversal of temporary differences | (91) | (50) |
| Adjustments in respect of prior periods | 12 | 80 |
| **Total deferred tax charge/(credit)** | **(79)** | **30** |
| **Total tax charge/(credit)** | **(73)** | **159** |
| The tax charge on the profit for the year is different to the notional tax charge calculated at the UK corporation tax rate of 19%. The differences are explained below: | | |
| Profit before tax | 543 | 1,809 |
| Profit before tax multiplied by the standard rate of corporation tax of 19% | 103 | 344 |
| Tax effects of: | | |
| Non-deductible expenses | 40 | 16 |
| Research and development tax credit | (124) | (208) |
| Over provision of current tax | (104) | (73) |
| Over provision of deferred tax | 12 | 80 |
| **Total tax charge/(credit)** | **(73)** | **159** |

## *Deferred taxation*

Deferred tax is presented in the statement of financial position as follows:

### *The Group*

| | The Group | | The Company | |
|---|---|---|---|---|
| | Year Ended 31 March 2019 | Year Ended 31 March 2018 | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Deferred tax assets | 243 | - | 86 | - |
| Deferred tax liabilities | (255) | (120) | (126) | (121) |
| Net deferred tax assets/ (liabilities) | (12) | (120) | (40) | (121) |

The movements during the year are analysed as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | Year Ended 31 March 2019 | Year Ended 31 March 2018 | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
| | £'000 | £'000 | £'000 | £'000 |
| Net deferred tax assets / (liabilities) at the beginning of the year | (120) | 37 | (121) | 68 |
| Opening transition adjustment | 55 | - | - | |
| Charge to the statement of profit and loss for the year | 91 | 50 | 92 | 50 |
| *Charge to other* comprehensive income | (10) | - | - | - |
| Over provision of deferred tax | (11) | (80) | (11) | (80) |
| Reclassification to current tax | (17) | (127) | - | (159) |
| Net deferred tax assets / (liabilities) at the end of the year | **(12)** | **(120)** | **(40)** | **(121)** |

## *Category of deferred tax*

### *The Group*

| | Opening Balance | Opening Balance Adjustment | Credit/ (Charge) to the statement of profit and loss - CY | Credit/ (Charge) to the statement of profit and loss - PY | Reclassification to current tax | Closing Balance |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2019** | | | | | | |
| Property, plant and equipment | (144) | - | 41 | (23) | - | (126) |
| Share and share option schemes | 24 | - | 50 | 12 | - | 86 |
| Fair value on loans & advances | - | (119) | (10) | - | - | (129) |
| IFRS 9 ECL Provision | - | 174 | - | - | (17) | 157 |
| | **(120)** | **55** | **81** | **(11)** | **(17)** | **(12)** |
| **2018** | | | | | | |
| Property, plant and equipment | (149) | - | 35 | (31) | - | (144) |
| Share and share option schemes | 14 | - | 15 | (5) | - | 24 |
| Assessed loss | 172 | - | - | (44) | (127) | - |
| | **37** | | **50** | **(80)** | **(127)** | **(120)** |

*The Company*

| | Opening Balance | Credit/ (Charge) to the statement of profit and loss - CY | Credit/ (Charge) to the statement of profit and loss - PY | Reclassification to current tax | Closing Balance |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **2019** | | | | | |
| Property, plant and equipment | (144) | 41 | (23) | - | (126) |
| Share and share option schemes | 24 | 50 | 12 | - | 86 |
| | **(120)** | **91** | **(11)** | - | **(40)** |
| **2018** | | | | | |
| Property, plant and equipment | (149) | 35 | (31) | - | (145) |
| Share and share option schemes | 14 | 15 | (5) | - | 24 |
| Assessed loss | 203 | - | (44) | (159) | - |
| | **68** | **50** | **(80)** | **(159)** | **(121)** |

At 31 March 2019, the Company had no unrecognised deferred taxation assets (2018: nil).

# 13. Dividends

The Company paid no dividends during the year (2018: £nil).

# 14. Property, plant and equipment

## *The Group and Company*

| | Computer equipment | Furniture and fittings | Leasehold improvements | Total |
|---|---|---|---|---|
| **Cost** | £'000 | £'000 | £'000 | £'000 |
| **Balance as at 31 March 2017** | **235** | **257** | **805** | **1,297** |
| Additions | 142 | 6 | 3 | 151 |
| Transfer of assets | - | - | - | - |
| Disposals | (1) | - | - | (1) |
| **Balance as at 31 March 2018** | **376** | **263** | **808** | **1,447** |
| Additions | 130 | 42 | 32 | 204 |
| Transfer of assets | - | - | - | - |
| Disposals | - | - | - | - |
| **Balance as at 31 March 2019** | **506** | **305** | **840** | **1,651** |

| | Computer equipment | Furniture and fittings | Leasehold improvements | Total |
|---|---|---|---|---|
| **Accumulated depreciation and impairment** | £'000 | £'000 | £'000 | £'000 |
| **Balance as at 31 March 2017** | **101** | **81** | **101** | **283** |
| Charge for the year | 93 | 52 | 81 | 226 |
| Disposals | - | - | - | - |
| Transfer of assets | - | - | - | - |
| **Balance as at 31 March 2018** | **194** | **133** | **182** | **509** |
| Charge for the year | 124 | 57 | 81 | 262 |
| Disposals | - | - | - | - |
| Transfer of assets | - | - | - | - |
| **Balance as at 31 March 2019** | **318** | **190** | **263** | **771** |

| | | | | |
|---|---|---|---|---|
| **Net carrying value as at 31 March 2019** | **188** | **115** | **577** | **880** |
| Net carrying value as at 31 March 2018 | 182 | 130 | 626 | 938 |

# 15. Intangibles

## *The Group*

During the year ended 31 March 2019, the Group assessed the requirements of IAS 38 and identified that it had incurred expenditure on intangible assets that met the criteria for capitalisation. During the year, £0.2m of software licences and £0.03m of amortisation have been transferred from prepayments.

| | Software licences | Internally developed software | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost** | | | |
| **Balance as at 31 March 2017** | **53** | **-** | **53** |
| Additions | 1 | 838 | 839 |
| **Balance as at 31 March 2018** | **54** | **838** | **892** |
| Additions | 421 | 2,241 | 2,662 |
| Transfer of assets | 245 | - | 245 |
| **Balance as at 31 March 2019** | **720** | **3,079** | **3,799** |

| | Software licences | Internally developed software | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Accumulated amortisation and impairment** | | | |
| **Balance as at 31 March 2017** | **33** | **-** | **33** |
| Charge for the year | 20 | 87 | 107 |
| **Balance as at 31 March 2018** | **53** | **87** | **140** |
| Charge for the year | 125 | 329 | 454 |
| Transfer of assets | 26 | - | 26 |
| **Balance as at 31 March 2019** | **204** | **416** | **620** |

| | | | |
|---|---|---|---|
| **Net carrying value as at 31 March 2019** | **516** | **2,663** | **3,179** |
| Net carrying value as at 31 March 2018 | 1 | 751 | 752 |

Internally developed software development has been capitalised as an intangible asset and is being amortised over 3 years. Significant projects include development of the Loan Engine, the self select platform and the automated borrower portal. Intangible assets are reviewed for indicators of impairment annually.

## The Company

| | Software licences | Internally developed software | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Cost** | | | |
| **Balance as at 31 March 2017** | **53** | **-** | **53** |
| Additions | 1 | 838 | 839 |
| **Balance as at 31 March 2018** | **54** | **838** | **892** |
| Additions | 316 | 2,241 | 2,557 |
| **Balance as at 31 March 2019** | **370** | **3,079** | **3,449** |

| | Software licences | Internally developed software | Total |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Accumulated amortisation and impairment** | | | |
| **Balance as at 31 March 2017** | **33** | **-** | **33** |
| Charge for the year | 20 | 87 | 107 |
| **Balance as at 31 March 2018** | **53** | **87** | **140** |
| Charge for the year | 1 | 329 | 330 |
| **Balance as at 31 March 2019** | **54** | **416** | **470** |

| | | | |
|---|---|---|---|
| **Net carrying value as at 31 March 2019** | **316** | **2,663** | **2,979** |
| Net carrying value as at 31 March 2018 | 1 | 751 | 752 |

## Operating lease commitments

Future minimum payments under non-cancellable operating leases

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| **Premises** | | |
| Due within a year | 1,282 | 1,282 |
| Due between 1 - 5 years | 5,126 | 5,126 |
| Due later than 5 years | 2,001 | 3,286 |
| | **8,409** | **9,694** |

The Group and the Company have a dilapidation requirement to return the leased office to specification as per the lease agreement. The total dilapidation is expected to be £9.54 per square foot.

The Group and the Company have no significant contingent liabilities at year end.

# 16. Investment in Subsidiaries

## *The Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| As at 1 April | 14 | 110 |
| Additions | - | 54 |
| Disposals[1] | - | (150) |
| **As at 31 March** | 14 | **14** |

1. During the prior year £150k of investments held by the Company were transferred to other group entities and are hence indirectly owned by the Company.

The Company owned either directly or indirectly, 100% of the share capital of the following subsidiaries as at 31 March 2019:

| Entity Name | Principal Activities | Direct Holding |
|---|---|---|
| LendInvest Loan Holdings Limited | Intermediary holding company | Company |
| LendInvest Capital Management Limited | Intermediary holding company | Company |
| LendInvest Capital Advisors Limited | Advisor to LendInvest Real Estate Opportunity Fund | LendInvest Capital Management Limited |
| LendInvest Finance No. 2 Limited | Provides secured lending to third party borrowers | LendInvest Capital Management Limited |
| LendInvest Finance No. 4 Limited | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest Funds Management Limited | Fund management company | Company |
| LendInvest Private Finance General Partners Limited | General Partner to LendInvest Income Limited Partnership | Company |
| LendInvest Development Limited (formerly LendInvest Finance No. 1 Limited) | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest Warehouse Limited (formerly LendInvest Finance No. 3 Hold Co. Limited) | Intermediate holding company and secured lending to third party borrowers | Company |
| LendInvest Finance No. 3 Limited | Provided secured lending to third party borrowers. Now dormant | LendInvest Loan Holdings Limited |
| LendInvest Security Trustees Limited | Holds securities | Company |

| | | |
|---|---|---|
| LendInvest Finance No. 5 Limited | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest Finance No. 6 Limited | Provides working capital to the Company | LendInvest Loan Holdings Limited |
| LendInvest Secured Income Plc | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest BTL Limited | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest Platform Limited | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest Bridge Limited | Provides secured lending to third party borrowers | LendInvest Loan Holdings Limited |
| LendInvest Loans Limited | Dormant | LendInvest Loan Holdings Limited |
| LendInvest IP Limited | Dormant | Company |
| LendInvest Loan Services Limited | Dormant | Company |
| LendInvest Contractor Limited | Dormant | Company |

The registered address of all subsidiaries is Two Fitzroy Place, 8 Mortimer Street, London W1T 3JJ.

The Group consolidated the results of LendInvest Income Partnership Limited whose registered address is Two Fitzroy Place, 8 Mortimer Street, London W1T 3JJ, as the directors consider that the Group exercises control over this entity.

# 17. Trade and other receivables

## *The Group*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| **Due within one year** | **£'000** | **£'000** |
| Trade receivables | 1,405 | 3,172 |
| Other receivables: | | |
| - Prepayments and accrued income | 5,124 | 937 |
| - Corporate tax receivable | 62 | 29 |
| - Other receivables | 2,017 | 607 |
| **Due after one year** | | |
| Rent deposit | 1,235 | 1,235 |
| | **9,843** | **5,980** |

## *The Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| **Due within one year** | **£'000** | **£'000** |
| Trade receivables | 22,633 | 6,438 |
| Other receivables: | | |
| - Prepayments and accrued income | 1,610 | 912 |
| - Corporation tax receivable | - | - |
| - Other receivables | 1,162 | 344 |
| **Due after one year** | | |
| Rent deposit | 1,235 | 1,235 |
| | **26,640** | **8,929** |

The carrying value of trade and other receivables approximates fair value and represents the maximum exposure to credit losses. Expected credit losses on trade receivables are immaterial.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. During the current year (and prior period) the Company had no trade receivables that are past due but not impaired.

# 18. Cash at bank in hand

## The Group

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Cash and cash equivalents | 33,322 | 27,260 |
| Trustees' account | 6,759 | 3,006 |
| | **40,081** | **30,266** |

## The Company

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Cash and cash equivalents | 12,962 | 7,131 |
| Trustees' account | 6,759 | 3,006 |
| | **19,721** | **10,137** |

Operationally, the Company does not treat the Trustees' balances as available funds. An equal and opposite payable amount is included within the trade payables balance (see note 20).

# 19. Loans and advances

## *The Group*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Gross loans and advances | 391,790 | 207,021 |
| Impairment provision | - | (2,728) |
| ECL provision[1] | (4,309) | - |
| Fair value adjustment[2] | 678 | - |
| **Loans and advances** | **388,159** | **204,293** |

1. The Group adopted IFRS 9 - Financial Instruments with effect from 1 April 2018 and the impact of adoption is set out in note 2. Impairment provisions are calculated under IAS 39 for 31 March 2018 and IFRS 9 for 31 March 2019.
2. Fair value adjustment to gross loans and advances due to classification as FVOCI.

## *ECL provision*

| Movement in the period | £'000 |
|---|---|
| Under IFRS 9 at 1 April 2018 | (7,138) |
| Additional provisions made during the period[1] | (4,623) |
| Utilised in the period[2] | 7,452 |
| **Under IFRS 9 at 31 March 2019** | **(4,309)** |

1. Included within the balance sheet provision is a £1m adjustment to recognise interest on stage 3 loans net of ECL. The net impact on the statement of profit and loss is £3.6m.
2. This utilisation of the provision relates to loans previously held by LendInvest Income Limited Partnership which were provided for under IAS 39.

Loans that are written off can still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. The contractual amount outstanding on loans and advances that were written off during the reporting period and are still subject to enforcement activity is £5.2m.

*Analysis of loans and advances by stage*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Gross loans and advances | 275,189 | 102,081 | 14,520 | 391,790 |
| ECL provision | (147) | (933) | (3,229) | (4,309) |
| Fair value adjustment | 1,250 | 598 | (1,170) | 678 |
| **Loans and advances** | **276,292** | **101,746** | **10,121** | **388,159** |

The maximum LTV on stage 1 loans is 85%. The maximum LTV on stage 2 loans is 115%. The total value of collateral held on stage 3 loans is £39m.

## *Movement analysis of loans by stage*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **As at 1 April 2018** | **130,797** | **50,734** | **22,470** | **204,001** |
| Transfer to stage 1 | 5,740 | (5,740) | - | - |
| Transfer to stage 2 | (24,412) | 24,412 | - | - |
| Transfer to stage 3 | (9,617) | (5,971) | 15,588 | - |
| New financial assets originated | 258,436 | 70,491 | 1,549 | 330,476 |
| Financial assets which have repaid | (72,023) | (31,835) | (16,192) | (120,050) |
| Balance movements in loans | (12,629) | (345) | (5,842) | (18,816) |
| Write-offs | - | - | (7,452) | (7,452) |
| **Total movement in loans and advances** | **145,495** | **51,012** | **(12,349)** | **184,158** |
| **As at 31 March 2019** | **276,292** | **101,746** | **10,121** | **388,159** |

## *Movement analysis of ECL by stage*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| As at 31 March 2018 | - | - | 2,728 | 2,728 |
| Impact of adopting IFRS 9 | 229 | 315 | 3,866 | 4,410 |
| **Restated balance as at 1 April 2018** | **229** | **315** | **6,594** | **7,138** |
| Transfer to stage 1 | 13 | (13) | - | - |
| Transfer to stage 2 | (84) | 84 | - | - |
| Transfer to stage 3 | (4) | (7) | 11 | - |
| New financial assets originated | 140 | 754 | 150 | 1,044 |
| Financial assets which have repaid | (81) | (124) | (485) | (690) |
| Changes in models / risk parameters | (66) | (76) | 3,412 | 3,270 |
| Adjustments for interest on impaired loans | - | - | 999 | 999 |
| Write-offs | - | - | (7,452) | (7,452) |
| **Total movement in impairment provision** | **(82)** | **618** | **(3,365)** | **(2,829)** |
| **As at 31 March 2019** | **147** | **933** | **3,229** | **4,309** |

The Group and Company held no POCI loans during the year to 31 March 2019

## *Credit risk on gross loans and advances*

The table below provides information on the Group's loans and advances by stage and risk grade.

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Risk Grades 1 - 5 | 198,928 | 27,500 | - | 226,428 |
| Risk Grades 6 - 10 | 65,138 | 48,804 | 150 | 114,092 |
| Risk Grade 11 -15 | 12,226 | 25,442 | - | 37,668 |
| Default | - | - | 9,971 | 9,971 |
| **Total** | **276,292** | **101,746** | **10,121** | **388,159** |

## *The Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Gross loans and advances[1] | 16,194 | - |
| Impairment provision | - | - |
| ECL provision[2] | (356) | - |
| Fair value adjustment[3] | (2) | - |
| **Loans and advances** | **15,836** | - |

1. Included in gross loans and advances is £15.9m of loans made to group entities. The ECL provision on these loans is not material.
2. The Company adopted IFRS 9 - Financial Instruments with effect from 1 April 2018 and the impact of adoption is set out in note 2. Impairment provisions are calculated under IAS 39 for 31 March 2018 and IFRS 9 for 31 March 2019.
3. Fair value adjustment to gross loans and advances due to classification as FVOCI.

## *ECL provision*

| **Movement in the period** | **£'000** |
|---|---|
| Under IFRS 9 at 1 April 2018 | - |
| Additional provisions made during the period | (356) |
| Utilised in the period | - |
| **Under IFRS 9 at 31 March 2019** | **(356)** |

*Analysis of loans and advances by stage*

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Gross loans and advances | 15,897 | 290 | 7 | 16,194 |
| ECL provision | (355) | (1) | - | (356) |
| Fair value adjustment | - | (2) | - | (2) |
| **Loans and advances** | **15,542** | **287** | **7** | **15,836** |

All loans in the company were new during the year to 31 March 2019, so no movement analysis on loans or the ECL has been provided.

*Credit risk on gross loans and advances*

The table below provides information on the Group's loans and advances by stage and risk grade.

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Risk Grades 1 - 5 | 15,545 | 66 | - | 15,611 |
| Risk Grades 6 - 10 | - | 91 | - | 91 |
| Risk Grade 11 -15 | (3) | 130 | - | 127 |
| Default | - | - | 7 | 7 |
| **Total** | **15,542** | **287** | **7** | **15,836** |

# 20. Trade and other payables

## *The Group*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 (Restated[1]) |
|---|---|---|
| | £'000 | £'000 |
| Trade payables | 19,305 | 13,569 |
| Other payables: | | |
| -Taxes and social security costs | 456 | 343 |
| -Accruals and deferred income | 10,737 | 3,773 |
| | **30,498** | **17,685** |

1. See note 1.20

## *The Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 (Restated[1]) |
|---|---|---|
| | £'000 | £'000 |
| Trade payables | 14,053 | 8,213 |
| Other payables: | | |
| -Corporation tax | 1,220 | 129 |
| -Taxes and social security costs | 451 | 342 |
| -Accruals and deferred income | 4,188 | 2,294 |
| | **19,912** | **10,978** |

1. See note 1.20

The trade payables balance includes Trustees' balances of £6.8m in respect of uninvested cash held on the self select platform, which may be withdrawn by investors at any time.

The Company has no non-current trade and other payables.

The carrying value of trade and other payables approximates fair value.

# 21. Interest bearing liabilities

## *The Group*

| | Year Ended March 2019 | Year Ended March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Funds from investors and partners | 391,934 | 217,346 |
| Unamortised funding line costs | (3,787) | (2,914) |
| | **388,147** | **214,432** |

For an analysis of contractual maturity and liquidity risk, refer to note 3. The Group is not in breach or default of any provisions of the terms or conditions of the agreements governing borrowings. The Group's interest on funding has ranged between 2.3% to 8.6% in the current financial year.

Net debt represents interest bearing liabilities (as above), less cash at bank and in hand (excluding cash held for clients) and excluding unamortised funding line costs but including accrued interest relating to the Group's third-party indebtedness. A reconciliation of net debt is:

| | As at 31 March 2019 | As at 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Interest bearing liabilities | 388,147 | 214,432 |
| Deduct: cash as reported in financial statements | (40,081) | (30,266) |
| **Net debt: borrowings less cash as reported in the financial statements** | **348,066** | **184,166** |
| Add back: unamortised funding line costs | 3,787 | 2,914 |
| Add back: trustees' account balances | 6,759 | 3,006 |
| Add: accrued interest | 2,241 | 574 |
| Deduct: retained interest | (3,728) | (4,112) |
| **Net debt** | **357,125** | **186,548** |

## *The Company*

| | Year Ended March 2019 | Year Ended March 2018 |
|---|---|---|
| | £'000 | £'000 |
| Funds from investors and partners | 21,329 | - |
| | **21,329** | - |

# 22. Share capital

| | Year Ended 31 March 2019 | Year Ended 31 March 2019 | Year Ended 31 March 2018 | Year Ended 31 March 2018 |
|---|---|---|---|---|
| **Issued and fully paid up** | **number** | **£** | **number** | **£** |
| Ordinary shares | 20,973,850 | 21 | 20,973,850 | 21 |
| A Ordinary shares | 687,556 | 1 | 821,749 | 1 |
| A2 Ordinary shares | 880,000 | 1 | - | - |
| B1 Preferred shares | 1,615,881 | 2 | 1,615,881 | 2 |
| B2 Preferred shares | 2,308,402 | 2 | 2,308,402 | 2 |
| C Preferred shares | 1,711,181 | 2 | - | - |
| | **28,176,870** | **29** | **25,719,882** | **26** |

| Share premium | Year Ended March 2019 | Year Ended March 2018 |
|---|---|---|
| | **£'000** | **£'000** |
| 1 April | 7,000 | 7,000 |
| Issue of new equity | 10,278 | - |
| **31 March** | **17,278** | **7,000** |

The balance on the share capital account represents the aggregate nominal value of all ordinary and preference shares in issue. There is no maximum number of shares authorised by the articles of association.

The balance on the share premium account represents the amounts received in excess of the nominal value of the ordinary and preference shares.

All ordinary and preference shares have a nominal value of £0.000001.

The C Preferred shares, B Preferred shares, Ordinary shares and A Ordinary shares shall rank pari passu in all respects save for, on distribution of assets on liquidation, holders of the C Preferred shares and B Preferred shares rank ahead of holders of the Ordinary shares.

During the period to 31 March 2019 there was an issue of 1,711,181 C Preferred shares with a nominal value of £0.000001 per share at a total nominal value of £2. Consideration of £10,277,522 was received in excess of the nominal value of the shares which has been recognised in share premium. Also, during the period to 31 March 2019 there was an issue of 880,000 A2 shares with a nominal value of £0.000001 per share at a total nominal value of £0.88.

During the period, a reduction of A Ordinary shares occurred on 9 May 2018 with 134,193 shares being repurchased for nil consideration.

# 23. Reserves

Reserves are comprised of retained earnings and the employee share reserve. Retained earnings represent all net gains and losses of the Group less costs associated with the issue of new equity and the employee share reserve represents the fair value of share options issued to employees but not exercised.

The fair value reserve represents movements in the fair value of the financial assets classified as FVOCI.

# 24. Share-based payments

## *Enterprise Management Incentives share option scheme.*

During the 2016 financial year the Company issued share options to employees under an Enterprise Management Incentives ("EMI") share option scheme. The following information is relevant in the determination of the fair value of options granted under the equity-settled share based remuneration schemes operated by the Group

| | |
|---|---|
| Option pricing model used | Black-Scholes model |
| Valuation of share options at grant date | £0.29 pence per share actual market value |
| Amortisation period | 1 year |
| Strike price | £1.35 |
| Expiry date | December 2019 |
| Grant date | June 2015 |

*The movement in options is as follows*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| Balance at 1 April | 247,925 | 285,475 |
| Cancelled during the year | (47,850) | (37,550) |
| **Balance at 31 March** | **200,075** | **247,925** |

### *Company Share Option Plan*

During the current and prior financial years, the Company issued share options to employees under a Company Share Option Plan ("CSOP"). The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled share based remuneration schemes operated by the Group.

| | Year Ended 31 March 2017 | Year Ended 31 March 2018 | Year Ended 31 March 2019 |
|---|---|---|---|
| Option pricing model used | Black-Scholes model | Black-Scholes model | Black-Scholes model |
| Valuation of share options at grant date | £0.59 per share actual market value | £1.19 per share actual market value | £2.38 per share actual market value |
| Amortisation period | 3 years | 4 years | 4 years |
| Strike price | £0.05 | £0.000001 | £0.000001 |
| Expiry date | September 2026 | November 2027 | September 2028 |
| Grant date | September 2016 | November 2017 | September 2018 |

### *The movement in options is as follows*

| | | | |
|---|---|---|---|
| **Balance at 1 April** | **273,689** | **353,807** | **-** |
| Granted during the year | - | - | 371,300 |
| Options exercised during the year | - | - | - |
| Cancelled during the year | (73,281) | (167,847) | (43,450) |
| **Balance at 31 March 2019** | **200,408** | **185,960** | **327,850** |

### *Share based payment charge recognised*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 |
|---|---|---|
| | £'000 | £'000 |
| The expense is included in administrative expenses (note 7) | 259 | 54 |

### *Weighted average exercise price*

| | £ |
|---|---|
| At 1 April 2018 | 0.40 |
| Forfeited | 0.21 |
| **At 31 March 2019** | **0.31** |

### *Weighted average remaining contractual life*

| | Years | Number of Options |
|---|---|---|
| EMI | 0.75 | 200,075 |
| 2016 CSOP | 7.46 | 200,408 |
| 2017 CSOP | 8.63 | 185,960 |
| 2018 CSOP | 9.48 | 327,850 |
| | 6.96 | 914,293 |

### *Options granted in the year to 31 March 2019*

| **Options granted in the year** | |
|---|---|
| Market value at date of grant | £2.38 per share |
| Expected volatility | 35.00% |
| Expected dividends | 0.00% |
| Expected risk free rate | 1.55% |

# 25. Financial instruments

## *Principal financial instruments*

The principal financial instruments used by the Group, from which financial instrument risk arises, are: loans and advances, trade and other receivables, cash and cash equivalents, loans and borrowings, derivatives, and trade and other payables.

## *Categorisation of financial assets and financial liabilities*

All financial assets of the Group are carried at amortised cost or fair value through other comprehensive income as at 31 March 2019 and 31 March 2018 due to the nature of the asset. All financial liabilities of the Group are carried at amortised cost as at 31 March 2019 and 31 March 2018 due to the nature of the liability, with the exception of derivatives which are measured at fair value.

## *Financial instruments measured at amortised costs*

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, trade and other payables and interest-bearing liabilities. Due to their short- term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value.

### a) Carrying amount of financial instruments

A summary of the financial instruments held by category is provided below:

*The Group*

| | As at 31 March 2019 | As at 31 March 2018 (Restated[1]) |
|---|---|---|
| **Financial assets at amortised cost** | **£'000** | **£'000** |
| Cash and cash equivalents | 40,081 | 30,266 |
| Trade and other receivables | 3,422 | 3,779 |
| Loans and advances | - | 204,293 |
| **Financial assets at fair value through other comprehensive income** | | |
| Loans and advances | 388,159 | - |
| **Total financial assets** | **431,662** | **238,338** |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | 30,042 | 17,243 |
| Interest bearing liabilities | 388,147 | 214,432 |
| **Financial liabilities at fair value through profit & loss** | | |
| Derivative financial liability | 2,871 | 99 |
| **Total financial liabilities** | **421,060** | **231,774** |

1. See note 1.20

*The Company*

| | Year Ended 31 March 2019 | Year Ended 31 March 2018 (Restated[1]) |
|---|---|---|
| | £'000 | £'000 |
| **Financial assets at amortised cost** | | |
| Cash and cash equivalents | 19,721 | 10,137 |
| Trade and other receivables | 23,795 | 6,782 |
| **Financial assets at fair value through other comprehensive income** | | |
| Loans and advances | 15,838 | - |
| **Total financial assets** | **59,354** | **16,919** |
| | | |
| **Financial liabilities at amortised cost** | | |
| Trade and other payables | 18,241 | 10,507 |
| Interest bearing liabilities | 21,329 | - |
| **Total financial liabilities** | **39,570** | **10,507** |

1. See note 1.20

### *b) Carrying amount versus fair value*

The following table compares the carrying amounts and fair values of the Group's financial assets and financial liabilities as at 31 March 2019 and the comparative figures:

| | **As at 31 March 2019** | **As at 31 March 2019** | **As at 31 March 2018 (Restated[1])** | **As at 31 March 2018 (Restated[1])** |
|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial assets** | | | | |
| Cash and cash equivalents | 40,081 | 40,081 | 30,266 | 30,266 |
| Trade and other receivables | 3,422 | 3,422 | 3,779 | 3,779 |
| Loans and advances | 388,159 | 388,159 | 204,293 | 204,293 |
| **Total financial assets** | **431,662** | **431,662** | **238,338** | **238,338** |
| **Financial liabilities** | | | | |
| Trade and other payables | 30,042 | 30,042 | 17,243 | 17,243 |
| Interest bearing liabilities | 388,147 | 386,445 | 214,432 | 215,812 |
| Derivative financial liability | 2,871 | 2,871 | 99 | 99 |
| **Total financial liabilities** | **421,060** | **419,358** | **231,774** | **233,154** |

1. See note 1.20

The fair value of Retail Bond 1 interest bearing liabilities is calculated based on the mid-market price of 98.075 on 31 March 2019 (price of 100.6 on 31 March 2018).

The fair value of Retail Bond 2 interest bearing liabilities is calculated based on the mid-market price of 98.15 on 31 March 2019.

Following the Group's transition to IFRS 9, loans and advances are now classified as fair value through other comprehensive income and any changes to fair value are calculated based on the fair value model and are recognised through the statement of other comprehensive income.

Interest bearing liabilities continue to be classified at amortised cost and the fair value in the table above is for disclosure purposes only.

### *c) Fair value hierarchy*

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is relevant to the fair value measurement. Financial assets and liabilities are classified in their entirety into only one of the three levels. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

| | As at 31 March 2019 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Financial instruments measured at fair value** | | | | |
| Interest rate swap | **(2,871)** | - | (2,871) | - |
| Loans and advances | **388,159** | - | - | 388,159 |
| Interest bearing liabilities | **(386,445)** | (386,445) | - | - |

For all other financial instruments, the fair value is equal to the carrying value and has not been included in the table above

| | As at 31 March 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Financial instruments measured at fair value | | | | |
| Interest Rate Swap | 99 | - | 99 | - |

Level 2 instruments include interest rate swaps which are either 2, 3 or 5 years in length. These lengths are aligned with the fixed interest periods of the underlying loan book.

Level 3 instruments include loans and advances. The valuation of the asset is not based on observable market data (unobservable inputs). Valuation techniques include net present value and discounted cash flow methods. The assumptions used in such models include benchmark interest rates and borrower risk profile. The objective of the valuation technique is to determine a fair value that reflects the price of the financial instrument that would have been used by two counterparties in an arm's length transaction.

| **Financial instrument** | **Valuation technique used** | **Significant unobservable inputs** | **Range** |
|---|---|---|---|
| Loan and advances | Discounted cash flow valuation | Prepayment Rate<br>Probability of default<br>Discount Rate | 2% - 14%<br>16% - 84%<br>2.5% - 10% |

### *d) Fair value reserve*

| | **Financial assets** | **Deferred tax** | **Fair value reserve** |
|---|---|---|---|
| | **£'000** | **£'000** | **£'000** |
| **Fair value reserve at 1 April 2018** | (626) | 119 | (507) |
| Movement in fair value of loans and advances at fair value through other comprehensive income | (52) | 10 | (42) |
| **Fair value reserve at 31 March 2019** | **(678)** | **129** | **(549)** |

### *Information about sensitivity to change in significant unobservable inputs*

The significant unobservable inputs used in the fair value measurement of the reporting entity's loans and advances are prepayment rates, probability of default, and discount rates. Significant increase / (decrease) in any of those inputs in isolation would result in a lower / (higher) fair value measurement. A change in the assumption of these inputs will not correlate to a change in the other inputs

### *Sensitivity analysis*

| **Impact of changes in unobservable inputs** | **Gain or loss as at 31st March 2019** | **+5bps** | **-5bps** |
|---|---|---|---|
| | | **£'000** | **£'000** |
| Prepayment rates | 678 | 673 | 683 |
| Probability of default | 678 | 678 | 678 |
| Discount rate | 678 | 242 | 1,107 |

# 26. Derivatives held for risk management

| | Year Ended 31 March 2019 | | Year Ended 31 March 2018 | |
|---|---|---|---|---|
| **Instrument Type** | **Asset £'000** | **Liability £'000** | **Asset £'000** | **Liability £'000** |
| Interest rate swap | - | (2,871) | - | 99 |

All derivatives are held at fair value for the purpose of managing risk exposures arising on the buy-to-let lending portfolio.

The first derivative was entered into in January 2018. The net loss arising in the period of £2.8m (31 March 2018 £0.1m) has been recognised directly in the consolidated statement of profit and loss as a finance expense. The net notional principal amount of the outstanding interest rate swap contracts at 31 March 2019 was £204m (31 March 2018 £31.5m).

# 27. Related party transactions

## *The Group*

| | Fees Year Ended 31 March 2019 | Fees Year Ended 31 March 2018 | Amounts owed by related party 2019 | Amounts owed by related party 2018 | Amounts owed to related party 2019 | Amounts owed to related party 2018 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Directors' loans | - | - | - | 27 | - | - |

The directors' loans outstanding at 31 March 2018 have been written off during the year to 31 March 2019 and the costs recognised within administrative expenses.

## *The Company*

During the year the Company made a loan to LendInvest Warehouse Limited of £4.4 million to enable it to buy a portfolio of loans from LendInvest Income Fund Limited Partners. The balance as at 31 March 2019 was £3.9 million.

The Company also received the following fees from related party subsidiaries

| | Fees Year Ended 31 March 2019 |
|---|---|
| | £'000 |
| LendInvest Funds Management Limited | 22 |
| LendInvest Capital Management Limited | 100 |

# 28. Controlling party

In the opinion of the directors, the Company does not have a single controlling party.

# 29. Events after the reporting date

In May 2019, LendInvest Secured Income Plc, which is a subsidiary of the Group, sold at par, £15 million of bonds held in treasury at the year end.

In May 2019, the Company confirmed that it had mandated Citi as Sole Arranger, and BNP Paribas, Citi and HSBC as Joint Lead Managers for Mortimer BTL 2019-1 Plc, an RMBS transaction backed by a portfolio of UK buy-to-let loans.