Monzo Bank Limited (formerly Focus FS Limited)

Report and Financial Statements

28 February 2017

Registered number: 09446231

Contents

Annual Report 2017

The last twelve months have seen hundreds of thousands of people sign up to Monzo as we prepare to launch our current account.

Here we present our transparent annual report for our crowdfunding investors, our community and our customers, with financial statements for the year ending 28 February 2017.

Chief Executive's review

In February 2015, we set out to build a bank that we'd be proud to call our own. We were 12 people with zero customers, temporarily camped out in the offices of our friends at White Bear Yard in London. We wanted to change the way people thought about their money.

Two years later, we're serving almost 250,000 customers across the UK and people write to us everyday letting us know how we've helped give them back control of their finances.

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> The future of banking is... NOW. First day using my Monzo and it's already changed my life @MonzoLoveTweets 👌
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> 2:25 PM - 2 Jun 2017
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In time, we want Monzo to be a bank that improves the lives of a billion people around the world.

Last year

We have had a fantastic year - our prepaid programme has just hit 240,000 funded accounts, with more than £250m spent in total.

The first five months of 2017 in particular have been very strong. Since January, we've seen an average of 5% weekly growth in customer numbers and 7% weekly growth in transaction volumes. This growth is almost entirely organic from word-of-mouth referrals as people tell their friends and family.

In February and March, we agreed £22.5m of investment from Passion Capital, Thrive, Orange Digital Ventures, and more than 6,500 Crowdcube investors. We have also now directly connected to both Faster Payments and Mastercard as members and in April of this year we received our full UK banking licence.

The foundations are now in place for us to launch full bank accounts.

The next year

We have two key priorities for the next six months.

First, we want to continue to grow our user base and ensure we can meet that level of demand operationally.

Delightful customer support has been a key pillar of our success so far. Even though we're running a mobile-only bank, offering authentic human interaction is crucial to building and maintaining trust. Our customers should be able to talk with someone at Monzo about their money, at any time of night or day.

If we continue to grow at this rate, we will hit somewhere between 500,000 and 800,000 accounts by the end of the year. To continue to offer the level of support we aim for, we will need to significantly expand our team; we're looking to bring on around 40 new customer operations staff in the next six months.

Our second priority is rolling out the current account. We believe people shouldn't need to think about financial products. People didn't sign up for Monzo because they were looking for a prepaid card; instead, they want immediate visibility and control of their money. The shift from prepaid card to current account, therefore, should be as seamless as possible for our customers. The current account will have all of the functionality of the existing prepaid card, but add on features like Direct Debits, Faster Payments and overdrafts.

We try to avoid "big bang" launches, instead preferring to roll-out new features iteratively. This reduces risk and ensures we can continue to offer people the level of service they've come to expect from Monzo. We have about fifty current accounts live today among our staff, and we'll soon progress to a few thousand customers. At the moment, we're aiming to offer the current account to all existing customers in late summer. The wait might be frustrating at times for our community, but it's important to get it right. We have a responsibility to keep our customers' money safe.

From a financial perspective, we've got enough capital for at least the first 12 months of life as a bank. To create a viable, sustainable business, it's important that we reach profitability over time. However, profitability is not a key priority for this year, and we would prefer to focus on growth over driving revenue. As a consequence, and as explained in our crowdfunding pitch earlier this year, we'll need to raise more funding in early 2018. If we grow even faster than expected, we may need to accelerate funding plans. We are also exploring ways to include a crowd component in the next investment round to include as many of our community as possible.

Having built direct connections into Mastercard and Faster Payments, our unit economics will improve dramatically once customers move to the current account. The prepaid scheme loses around £50 per active customer per year. Simply by moving to current accounts powered by our own technology, we plan to significantly reduce this amount.

The largest remaining costs are customer support and ATM usage. On customer support, we believe that we will be able to significantly improve efficiency in the long-term, so we're prepared to over-invest in the short-term to provide our customers with a world-class experience.

Around 40% of the per-customer loss is due to international ATM usage outside the UK or EU, with a small minority of our user-base driving the majority of this cost. As a result, we will explore ways to reduce this cost in collaboration with our community – it will not be a profit-making exercise. UK and EU ATM usage costs us much less, and we aim to keep this free. We still believe foreign exchange at point-of-sale (in shops, restaurants and online) can be provided to customers for free.

On the revenue side, we will start experimenting with lending functionality. Roughly speaking, we aim to be in the cheapest quarter of the market on price (adjusted for factors like risk, customer profile, and the type of lending), but we do not aim to be price leaders in all circumstances. Nor do we wish to set a single headline price and compete as part of "best-buy” tables. Instead, we will focus on offering lending tools to to help people manage their day-to-day finances more effectively. We want to give people immediate visibility and control of their money, rather than tempting them in with a low headline price and then recouping costs elsewhere.

As a result, we will aim to run a number of quick, small-scale lending trials to better understand how people like to manage their money. When we're confident these new product features work well for customers, we'll roll them out more widely. You may start to see glimpses of new features or pricing that we're trialling over the next few months!

Long-term

In the long-term, we want to build a powerful financial control centre for a billion people. We don't want to be a full-service bank, offering Monzo mortgages or Monzo credit cards. Instead, we want to be a platform or marketplace that gives people visibility and control of all of their money, whichever providers they use. The future of banking is data and identity.

Imagine if you could collect loyalty points simply by using your Monzo card to pay in shops. Or if your gas and electricity tariff was automatically switched to ensure you're always getting the best deal. Imagine opening a new ISA with a couple of taps, investing all the money Monzo has helped you save. We are looking at early prototypes of these third-party integrations today and some are already pretty magical. We will aim to roll out a handful of these to our customers in the next 12 months.

There are clearly potential risks and pitfalls here. Who gets to access customer data? What purposes can they use it for? Is it stored securely after it's shared? These are questions we will need to address before these third-party services can be offered to all customers.

In principle, we believe the customer should be in control of their financial data. As such, we will explain what benefit you'll get from sharing, and we won't share your personal data with third parties without your explicit consent. We also believe in transparency – if Monzo benefits from a data-sharing deal, we'll let you know about it upfront. If you don't give consent, your data will remain private. We welcome new regulation (GDPR and PSD2 in particular) in this area because we believe it puts the customer firmly in control of their personal data.

We see ourselves as trusted custodians of both your money and your data. We will only succeed if we maintain that trust.

We're incredibly excited about this year and the opportunities ahead of us. I'd like to thank the Monzo team, our investors, and the wider Monzo community who all have helped us get this far. Here's to the next 12 months!

Tom Blomfield
CEO, Monzo
21st June 2017

General information

Directors

- Baroness D Kingsmill
- T Blomfield
- T Brooke
- E Burbidge
- G Dolman
- M Grimshaw
- A Kirk
- K Woollard

Auditors

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Bankers

Royal Bank of Scotland Group Plc
280 Bishopsgate
London
EC2M 4RB

Solicitors

Taylor Wessing LLP
5 New Street Square
London
EC4A 3TW

Registered Office

1st Floor
230 City Road
London
EC1V 2QY

Directors' report

The directors present their report and financial statements for the 12 months ended 28 February 2017. These financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union, rather than UK GAAP.

Results and dividends

The loss for the year after taxation amounted to £6,689,000 (2016 – loss of £1,446,000). The directors do not recommend a final dividend (2016 – £nil).

Principal activities

The principal activity of Monzo Bank Limited (the “Bank” or the “Company”) is to provide retail banking services in the UK.

During the period the Company continued the building of the capability to provide banking services to its customers and obtaining an unrestricted license to do so. It also launched a prepaid debit card in order to be able to use the lessons learned from this to build the best possible current account product for its customers.

Directors

The directors who have held office during the year ended 28 February 2017 are as follows:

- Baroness D Kingsmill (Chairman)
- T Blomfield
- T Brooke
- E Burbidge
- G Dolman (appointed 7 November 2016)
- M Grimshaw (appointed 21 February 2017)
- K Woollard (appointed 23 May 2016)
- A Kirk (appointed 24 January 2017)

Directors' liabilities

The Bank has indemnified all directors of the Bank against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force during the year.

Financial risk management

The Directors' assessment and approach to financial risk management are detailed in note 4 of these accounts.

Going concern

Since incorporation the Company has undertaken a series of successful equity raisings to fund the start- up phase of the business. The initial focus of the Company was on obtaining a banking licence, which was received in August 2016 subject to restrictions. The restrictions were lifted in April 2017 and the Company can now launch its product in the market.

To support this launch and subsequent-phases of its growth, the Company has raised sufficient equity to ensure that it can survive for a period in excess of 12 months from the end of the reporting period. Details of equity raised are contained in Note 14. Consequently the financial statements have been prepared on a going concern basis.

Events since the balance sheet date

In March 2017 £2.5m was raised via the issue of 2.5m ordinary shares to investors.

The restriction to maximum total deposits of £50,000 was lifted by the FCA and a full banking licence was granted in April 2017.

Appointment of auditors

Ernst & Young LLP were appointed as auditors of the Company on 28 February 2017 and have been re-appointed pursuant to section 487(2) of the Companies Act 2006 unless the members or directors resolve otherwise.

Employment of disabled persons

The company does not discriminate against any person on the grounds of disability.

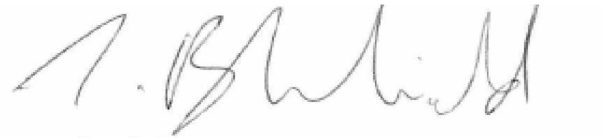
Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors.

On behalf of the Board



Tom Blomfield
Director
21 June 2017

Statement of directors' responsibilities

The directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

Under Company Law the directors must not approve the financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance;
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Monzo Bank Limited (formerly Focus FS Limited)

We have audited the financial statements of Monzo Bank Limited (formerly Focus FS Limited) for the 12 months ended 28 February 2017 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 12 months ended 28 February 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have identified no material misstatements in the Board of Directors' Report. We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Ernst & Young LLP

Javier Faiz (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 June 2017

The following foot note should be added to the audit report when it is published or distributed electronically:
Notes:

1. The maintenance and integrity of the Monzo Bank Limited (formerly Focus FS Limited) web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of comprehensive income

For the 12 months ended 28 February 2017

	Notes	12 months ended	13 months ended
		28 February 2017	**29 February 2016**
		£000	**£000**
Other operating income		120	5
Administrative expenses	5	(8,047)	(1,691)
Loss before tax		(7,927)	(1,686)
Taxation	8	1,238	240
Total comprehensive loss		(6,689)	(1,446)

The notes on pages 17 to 32 are an integral part of these financial statements. Other income and operating losses were derived from continuing operations in both the current and prior year.

Statement of financial position

at 28 February 2017

	Notes	28 February 2017	29 February 2016
		£000	**£000**
Assets			
Cash and cash equivalents	9	14,874	411
Trade and other receivables	10	4,402	320
Property plant and equipment	11	178	13
Intangible assets	12	24	-
Total assets		19,478	744
Liabilities			
Trade and other payables	13	1,080	176
Total liabilities		1,080	176
Equity			
Called up share capital	14	0	0
Share premium account		26,298	2,000
Other reserves		235	14
Accumulated losses		(8,135)	(1,446)
Total equity		18,398	568
Total liabilities and equity		19,478	744

The notes on pages 17 to 32 are an integral part of these financial statements. The financial statements on pages 13 to 32 were approved and authorised for issuance by the Board on 21st June 2017 and signed on its behalf by

Tom Blomfield
Director

Statement of changes in equity

for the 12 months ended 28 February 2017

	Share capital	Share premium	Other reserves	Retained losses	Total equity
	£000	£000	£000	£000	£000
At 18 February 2015	-	-	-	-	-
Shares issued	-	2,000	-	-	2,000
Share-based payments reserve	-	-	14	-	14
Losses for the period	-	-	-	(1,446)	(1,446)
At 1 March 2016	-	2,000	14	(1,446)	568
Shares issued	-	24,288	-	-	24,288
Cost of issuance	-	(63)	-	-	(63)
Share-based payments reserve	-	-	294	-	294
Exercise of options	-	73	(73)	-	-
Losses for the year	-	-	-	(6,689)	(6,689)
At 28 February 2017	-	26,298	235	(8,135)	18,398

Statement of cashflows

For the 12 months ended 28 February 2017

	Notes	12 months ended 28 February 2017	12 months ended 29 February 2016
		£000	**£000**
Cash flows from operating activities			
Loss		(6,689)	(1,446)
Adjustments for:			
Depreciation of property plant and equipment		36	6
Amortisation of intangible assets		5	-
Share-based payments		294	14
(Increase) in trade and other receivables	10	(4,082)	(320)
Increase in trade and other payables	13	904	176
Net cash used in operating activities		(9,532)	(1,570)
Cash flows from investing activities			
Acquisition of property, plant and equipment	11	(201)	(19)
Acquisition of intangible assets	12	(29)	-
Net cash from investing activities		(230)	(19)
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		24,225	2,000
Net cash from financing activities		24,225	2,000
Net increase in cash and cash equivalents		14,463	411
Cash and cash equivalents at beginning of the period		411	-
Cash and cash equivalents at end of year/period	9	14,874	411

Notes to the financial statements

at 28 February 2017

1. Basis of preparation

The accounts have been prepared on an historical cost basis and in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union. The company prepared its financial statements under Financial Reporting Standards for Smaller Entities (‘FRSSE’) for the period from 18 February 2015 to 29 February 2016. FRSSE differs in certain respects from IFRSs, hence certain disclosures have been amended to comply with IFRSs. There have been no material changes to the financial statement results or balance sheet position in either the current or previous period as a result of the change in accounting policy. The significant accounting policies adopted are set out in Note 3.

The financial statements are presented in GBP, which is also the Company’s functional currency.

Certain new accounting standards and interpretations have been published that are not mandatory for the 12 months ended 28 February 2017 and have not been early adopted by the company. In addition there are certain new standards that are not yet effective and may impact the Company in future periods. These include IFRS 9, ‘Financial Instruments’, IFRS 15, ‘Revenue from contracts with customers’ and IFRS 16, ‘Leases’. These standards are expected to impact the Company, in particular IFRS 9 once banking operations have commenced, though a detailed analysis of the impact on the company has not yet been performed.

The financial statements of the Company have been prepared in accordance with IFRS as issued by the IASB.

2. Critical accounting estimates and judgments

The preparation of the financial statements requires the use of accounting estimates and assumptions. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Management considers that the accounting estimates relating to fair valuing stock based compensation (Note 15), and the recognition (or not) of deferred tax assets for carried forward tax losses (Note 3(g)) are the most material to the financial statements.

Going concern

Since incorporation the company has undertaken a series of successful equity raisings to fund the start- up phase of the business. The initial focus of the company was on obtaining a banking licence. A licence with restrictions was obtained in August 2016 and the restrictions were lifted in April 2017. The focus of the company has been on further developing its customer proposition and building its operating model and infrastructure. The Company plans to launch its banking operations to customers in 2017. To support this launch, and subsequent-phases of its growth, the company has raised sufficient equity to ensure that it can survive for a period in excess of 12 months from the reporting date. However in order to support growth of the business it is expected that a further equity raise will be undertaken at the start of 2018. Given the success of previous equity raisings and the growth that is being experienced by Monzo we believe that there will be strong demand for that issue. Consequently the financial statements have been prepared on a going concern basis.

Valuation of share options

The Company measures the cost of equity-settled options based on the fair value of the awards granted. The fair value is determined based on the observable share prices or by using an appropriate valuation model. The use of option pricing models to determine the fair value requires the input of highly subjective assumptions including the expected price volatility, expected life of the award and dividend yield. Changes in the subjective assumptions can materially affect the fair value estimates. The assumptions and models used for estimating the fair value of share-based payments is disclosed in note 15.

Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes above.

a. **Receivables**

   Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

b. **Cash and cash equivalents**

   For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes deposits held at call with financial institutions.

c. **Property, plant and equipment**

   Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the cost of the assets.

   Depreciation is provided on all property, plant and equipment, and calculated using the straight-line method to allocate their cost, net of residual values, over their estimated useful lives, as follows:

   Office and IT Equipment – 3 years

   Fixtures and fittings – 4 years

   Office fit out costs and legal costs of acquiring a new office lease are recognised on a straight-line basis over the life of the lease.

d. **Intangible assets**

   Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives as follows once brought into use:

   Third party software licences – amortised over the length of licence, which varies between 1 and 10 years.

   Amortisation is recorded within administrative expenses in the Statement of Comprehensive Income.

e. **Trade and other payables**

   These amounts represent liabilities for goods and services provided to the company prior to the end of the financial period which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities. They are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method.

f. **Current Taxation**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date, when the Company generates taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

g. **Deferred tax**

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probably that future taxable profits will be available against which the temporary differences can be utilised.

h. **Share-based payments**

Employees (including senior executives) may be entitled to receive remuneration in the form of share options to reward strong long-term business performance and to incentivise growth for the future.

The cost of the employee services received in respect of the share options granted is recognised over the period that employees provide services. This is generally the period in which the award is granted or notified and the vesting date. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the options at the date of grant.

The fair value of options at grant date is recognised as an employee expense with a corresponding increase in equity over the period that the employees become unconditionally entitled to the awards. The grant date fair value is determined using valuation models which take into account the terms and conditions attached to the awards. Inputs into the valuation model include the risk free rate and the expected volatility of the Company's share price.

i. **Revenue Recognition**

At present the Company generates income from interchange and interest receivable. This is recognised to the extent that it is probable that the economic benefits will flow to the Company and they can be reliably measured, which is consistent with the approach to be taken with revenue in future periods.

j. **Foreign exchange**

The Bank's financial statements are presented in GBP, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Bank operates. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the Statement of Comprehensive Income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

4. Risk Management

At Monzo, we take the responsibility of being a bank very seriously and recognise that the firm is exposed to a number of risks through our chosen business model and business strategy. Identifying, assessing, managing and reporting on those risks is central to the way we run the Bank. Good risk management enables the creativity we seek to provide for the development of our bank and its technology.

Risk Management Framework

Our approach to Risk Management supports the wider business strategy and is delivered through our Risk Management Framework which comprises 6 key components: Risk Appetite, Policies, a 3 Lines of Defence organisation structure, various risk procedures, tools and techniques, risk reporting and an appropriate governance structure.

Principal Risks

Through our business strategy and business model we are exposed to a number of risks, the most material of which we have termed our principal risks and they are:

- Strategic and Business Model Risk – risk or threats that materially affect the business strategy, business model and consequently the successful execution of the business plan.
- Customer Outcome Risk – risk that our culture, behaviours and/or actions result in poor customer outcome and/or detriment to customers through our product and services not meeting needs.
- Retail Credit Risk – risk that customers who borrow do not meet their obligations in accordance with the agreed terms.
- Operational Risk – risk of direct or indirect loss resulting from failed internal processes, people and systems and / or from external events.
- Financial Risk – various risks which impact the financial profile of the business including liquidity risk, interest rate risk and wholesale credit risk.
- Compliance Risk – risk of failure to meet with the relevant legislation and / or regulation.

Risk Profile

During the year 2016/17 the business has been focused on a prepaid card programme with a number of partners to test a number of areas of the business model whilst building the infrastructure to launch a current account programme. The most significant risks are therefore the viability of the business model and the operational risks of running the prepaid programme.

Financial crime, cyber security and operational process risk are the main exposures. There is very limited credit and financial risk in the prepaid card programme.

As full banking operations commence the Company will be exposed to more significant risks and to the full range of risks described above.

Governance

Our governance structure has been developed to support our launch as a bank. It comprises a Board of Directors supported by 4 Board Committees each of which has membership drawn from the independent non-executives on the Board. The 4 committees are:

- Risk & Compliance Committee
- Audit Committee
- Remuneration Committee
- Nomination Committee

Day to day running of the business is delegated to the CEO who has established 2 Management Committees to support him; an Executive Committee for general business matters and an Assets and Liability Committee on Balance Sheet matters.

5. Loss before tax

	12 months ended	13 months ended
	28 February 2017	29 February 2016
	£000	£000
This is stated after charging:		
Depreciation and amortisation of owned assets	41	6
Share-based payments	294	14
Auditors' remuneration for audit of the Company's financial statements	30	-
Prepaid card scheme development	2,713	111
Premises cost	233	145
Marketing	376	49

6. Directors' remunerations

	12 months ended	13 months ended
	28 February 2017	29 February 2016
	£000	£000
Total Directors' remunerations		
Wages and salaries	65	69
Share-based payments	73	-
	138	69
Highest paid Director		
Wages and salaries	60	69
Share-based payments	-	-
	60	69

7. Personnel Expenses

Employee benefit expense (including Directors) comprise:

	12 months ended	13 months ended
	28 February 2017	**29 February 2016**
	£000	**£000**
Salaries	1,995	697
Social security contributions	239	91
Share-based payments	294	14
	2,528	802

The average number of employees of the company during the period was 47 (13 months ended 29 February 2016 – 14) all of whom were employed in management, operations and administration.

8. Taxation

	12 months ended	13 months ended
	28 February 2017	**29 February 2016**
	£000	**£000**
UK corporation tax credit on loss for the period	1,238	240

Factors affecting future tax charges

From April 2017 the UK corporation tax rate will fall from 20% to 19%. This has no immediate impact in the current or next financial period for the company, however it should result in lower tax charges as and when the company becomes profitable and all the carried forward trading losses are utilised.

	12 months ended	13 months ended
	28 February 2017	**29 February 2016**
	£000	**£000**
Loss on ordinary activities before tax	(7,927)	(1,686)
Standard rate of corporation tax	20%	20%
Expected tax credit	1,585	337
Effects of:		
Expenses not deductible for tax	(27)	(7)
Additional deduction for R&D expenditure	966	187
Impact of surrendering losses at lower rate	(470)	(92)
Loss in year where no deferred tax asset recognised	(816)	(185)
Total tax credit for the period	1,238	240

Deferred tax

The deferred tax included in the balance sheet is as follows:

	12 months ended	13 months ended
	28 February 2017	**29 February 2016**
	£000	**£000**
Included in debtors	-	-
	-	-

	12 months ended	13 months ended
	28 February 2017	**29 February 2016**
	£000	**£000**
Accelerated capital allowances	(25)	(2)
Losses	25	2
	-	-

The UK Government has announced reductions in UK corporation tax to 17% by 1 April 2020. The closing deferred tax assets and liabilities have been calculated taking into account that existing temporary differences may unwind in periods subject to the reduced rates. A deferred tax asset has not been recognised in respect of tax losses carried forward totalling £4,993,718 as there is insufficient evidence as to their recoverability.

9. Cash and cash equivalents

Cash and cash equivalents consists of balances held on overnight deposit with the Bank of England and RBS and amount to £14,874,000 at 28 February 2017 (29 February 2016 – £411,000).

10. Trade and other receivables

	28 February 2017	29 February 2016
	£000	**£000**
Prepayments	348	20
Collateral provided to payment scheme providers	2,461	-
R&D tax reclaim	1,238	240
Deposit on premises	171	-
Other receivables	184	60
	4,402	320

11. Property, plant and equipment

	Fixtures and fittings	Office and IT equipment	Total
	£000	£000	£000
Cost			
At 18 February 2015	–	-	-
Additions	–	19	19
Disposals	–	-	–
At 1 March 2016	–	19	19
Additions	1	200	201
Disposals	–	–	–
At 28 February 2017	1	219	220
Depreciation			
At 18 February 2015	–	-	-
Charge for this period	–	6	6
Depreciation on disposal	–	-	–
At 1 March 2016	–	6	6
Charge for this period	–	36	36
Depreciation on disposal	–	–	–
At 28 February 2017	–	42	42
Net book value			
At 28 February 2017	1	177	178
At 29 February 2016	–	13	13

12. Intangible assets

	Software licenses
	£000
Cost	
At 18 February 2015	–
Additions	–
At 29 February 2016	–
Additions	29
At 28 February 2017	29
Depreciation	
At 18 February 2015	–
Charge for this period	–
Depreciation on disposal	–
At 29 February 2016	–
Charge for this period	5
Depreciation on disposal	–
At 28 February 2017	5
Net book value	
At 28 February 2017	24
At 29 February 2016	–

13. Trade and other payables

	28 February 2017	29 February 2016
	£000	**£000**
Trade creditors	229	54
Other taxes and social security costs	103	29
Accruals	748	93
	1,080	176

14. Called up share capital

	28 February 2017	29 February 2016
	£	£
Ordinary shares of £0.0000001/£0.00001 each	7	4
Deferred shares of £0.00001 each	–	1
	7	5

	Nominal		Number of ord. shares	Number of deferred shares	Share capital
As at 18 February 2015			–	–	–
Shares issued	0.001		1,000	–	1
Shares split			99,000	–	
	0.00001		100,000	–	1
Shares issued	0.00001		350,746	–	4
Conversion to deferred shares			(50,231)	50,231	-
As at 1 March 2016	0.00001		400,515	50,231	5
Shares split	0.0000001		39,650,985	4,972,869	-
			40,051,500	5,023,100	5
Shares issued	0.0000001	Apr-16	11,676,610	–	1
Conversion to deferred shares			(13,125)	13,125	
Cancellation of deferred shares			–	(5,036,225)	(1)
Options exercised	0.0000001	Oct-16	355,459	–	–
Shares issued	0.0000001	Oct-16	6,203,955	–	1
Shares issued	0.0000001	Feb-17	13,422,151	–	1
As at 28 February 2017			71,696,550	–	7

Some of the shares in issue are owned by management and staff and are subject to time based vesting conditions. At the balance sheet date 10,636,554 shares were unvested. In the event of shares failing to vest the Company has the right to repurchase the shares at their nominal value.

At the balance sheet date 159,629 ordinary shares were subject to a monthly vesting programme and in accordance with IFRS 2 will be treated as Treasury shares whilst they remain unvested.

15. Share-based payments

The company operates two share options scheme for the benefit of certain members of staff. The first is an HMRC approved Company Share Option scheme ('CSOP') in which awards can be made to employees subject to conditions. The strike price for these options is set according to the fair market share price at the time of issue as agreed with HMRC. For the Non-CSOP scheme, awards are made with the strike price set equal to the nominal value of the shares. For both schemes typically twenty five per cent of the options vest at the end of the first year of employment. The remainder vest evenly over the next three years. The fair value per share was based on the pricing achieved in the funding round immediately preceding the issuance given the shares are not actively traded. The total expense in 2017 was £294k (2016 £14k).

The main assumptions that have been used in deriving the value of the options at grant are;

Risk free rate	0.32%
Volatility	40%
Dividend yield	nil
Expected lift	4 years

Share-based payments (continued)

	CSOP		Non-CSOP	
	Number	**Fair value share price at date of issue**	**Number**	**Fair value share price at date of issue**
		£		£
Outstanding 18 February 2015	–		–	
Granted during the period	12,615	19.967	28,990	19.967
At 29 February 2016	12,615		28,990	
Share split	1,261,500	0.19967	2,899,000	0.19967
Granted during the period				
	45,100	0.19967	113,933	0.19967
	976,714	0.5133	322,938	0.5133
	646,766	0.7737	277,827	0.7737
	29,827	1.0058	–	1.0058
Lapsed	(131,211)		(43,820)	
Exercised	–		(355,459)	
At 28 February 2017	2,828,696		3,214,419	

16. Related party transactions

Key management personnel compensation

	28 February 2017	29 February 2016
	£000	**£000**
Salaries & renumeration	327	206
Social security contributions	40	25
Share-based payments	118	4
	485	235

At the balance sheet date there was a loan to an employee of £22,500. With the exception of this there were no balances due to or from a related party.

In the opinion of the Directors there is no overall controlling party.

17. Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	28 February 2017	29 February 2016
	£000	**£000**
Within one year	127	13
Later than one year but not later than five years	1,175	–
Later than five years	–	–
Total	1,302	13

18. Country reporting disclosure

In 2015, the UK Government enacted legislation (contained in the Financial Services and Markets Act 2000 Statutory Instrument 3118) with respect to country reporting disclosure. As the Company only operates in the UK this requirement has been considered and no further disclosure is required.

19. Events after reporting date

The Company raised £2.5m of equity share capital from existing and new investors during the period from 1 March 2017 to the date of signing the accounts.

The restriction to maximum total deposits of £50,000 was lifted by the FCA and a full banking licence was granted in April 2017.