

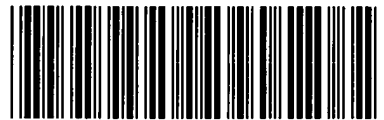
Registered number: 10113174

CHIP FINANCIAL LTD

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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CHIP FINANCIAL LTD

COMPANY INFORMATION

Directors	Richard Spencer Frank Simon Rabin Sharon Miles (appointed 21 May 2021) Alexander Latham (appointed 21 May 2021)
Registered number	10113174
Registered office	7 Bell Yard London WC2A 2JR
Independent auditors	Haysmacintyre LLP 10 Queen Street Place London EC4R 1AG

CHIP FINANCIAL LTD

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CHIP FINANCIAL LTD

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

Chip Financial Ltd ("Chip") is a UK-based company operating the Chip savings app, enabling its customers to deposit savings and then earn the best possible returns on those savings.

Chip develops its own proprietary technology to enable its services including Savings AI, OpenBanking powered account aggregation, payment and transfer systems, reconciliations and deposit ledgers as well as many consumer facing features through an iOS and Android mobile app.

Chip's business model does not require the company to hold customer balances, instead funds are transferred to third party banks & e-money providers. Customer's pay a subscription fee for the service.

Chip is authorised by the Financial Conduct Authority under the Payment Service Regulations 2017, firm reference number no. 911255, for the provision of payment services. Note that Chip is not a bank. Chip provides access to savings accounts with UK authorised partner banks and an e-money wallet with a UK authorised e-money provider. Chip is an agent of Prepaid Financial Services Limited. Prepaid Financial Services is authorised by the Financial Conduct Authority under the Electronic Money Regulations 2011, firm reference number 900036, for the issuance of electronic money and provision of payment services.

Business review

2020 was a challenging year for the world economy, mainly due to the impact of COVID-19. It caused a significant shift in people's incomes, financial attitudes, and priorities. Chip's customers became more aware of the need for a financial safety net, and although incomes were affected UK consumers did increase their savings significantly. This has impacted Chip positively, measured by the significant spike in customer numbers and significant increase in balances. During 2020 Chip's registered user numbers doubled to 250k and monthly deposits reached £28m a month by the end of the year - a £336m annualised deposit rate.

In July Chip introduced its first customer charges, initially a £1 per 28 day subscription charge and continued to evolve customer charges through the later part of the year.

In September the business secured £11.5 million in additional funding from existing shareholders, the Future Fund and the Crowdcube platform. The raise was considered part of the company's Series A.

In November Chip started offering FSCS eligible accounts in partnership with ClearBank offering a bonus rate of 1.25% (variable). This account was the first step towards a wider migration away from Prepaid Financial services and e-money and towards the provision of FSCS core accounts to Chip customers in 2021.

CHIP FINANCIAL LTD

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

Principal risks and uncertainties

Strategic Risks

Chip defines Strategic Risk as all events that disprove Chip's main business assumptions and threaten Chip's business model and strategy - Chip's strategy is set out and overseen by the Executive Committee, supported by the Executive Leadership team. The strategy is mirrored in Chip's KPIs which are monitored and analysed frequently which allows for remedial actions to be taken as soon as deviations are identified

Capital and Funding Risk

Capital Risk is the Risk that Chip does not have sufficient capital to perform its business activities. Chip is authorised under the Payment Services Regulations 2017 for the provision of payment services. In order to meet the regulatory capital requirements under the Regulations Chip opted for conversion of its convertible loan note issued as part of the fundraising in September 2020. This approach was approved by FCA. As at the reporting date the conversion was still in process and at the time of filing the accounts the conversion had successfully completed.

Funding Risk is the Risk that Chip does not have sufficient sources of funding to meet its obligations. Chip funding position is managed by the FP&A department using early warning indicators and scenario analysis in order to assess the financing needs of the company.

Chip expects to have in the future sufficient capital and funding to be able to support its capital requirements and to meet its business objectives.

Financial Crime Risk

As a customer-facing company Chip needs to comply with all applicable regulations. One of the major risks is coming from the significant volume of transactions in client funds and the embedded risk of criminal activity and any losses related to it. To mitigate this risk Chip has robust Know-your-customer and Anti-Money-Laundering policies, monitors customers and transactions regularly. Chip uses a combination of the third party software and bespoke in-house tools to manage all Financial crime and AML processes.

Operational Risk

As a financial technology company, Chip relies on its people, operational infrastructure and technology. There is an inherent risk of failure of any of those resources. In order to mitigate this risk Chip has adopted Business Continuation Policy that is being reviewed regularly and has a robust real time incident management protocols in place to deal with any issues quickly and effectively as they arise.

Third Party Risk

Chip works with different third parties in its daily operations including payment processing, compliance, KYC, e-wallet provider and other important servicers. Failure in their systems and/or processes can impact Chip negatively. Chip monitors real time the performance of its service providers which allows for immediate actions to be taken in case of any disruptions.

Cyber and Data Security Risk

Chip continuously evaluates its security risks, processes and practices and has adopted a number of measures to lower the likelihood and impact of these risks. These include continuous infrastructure and network scanning, security and phishing training for all staff, pen-testing of the application and APIs, and hardening of underlying infrastructure in line with best practices.

CHIP FINANCIAL LTD

STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

Going concern

The financial statements have been prepared on a going concern basis, as management believes that the Company will be able to meet its liabilities as and when they fall over the next 12 months from the date of signing of these financial statements. The directors will continue to meet their regulatory and fiduciary obligations in respect of the Company, along with taking all necessary management steps and decisions to ensure that all financial commitments can be met when they fall due in the current economic environment (also considering the COVID-19 macro-economic climate).

However, the directors recognise that there is material uncertainty that exists when operating in a high growth technology sector, where raising further capital is essential to meeting the Company's liabilities as they fall due.

At the date of writing this report management is in ongoing discussions with prospective institutional investors to raise further capital and is confident that the full process will complete before the end of December 2021. In addition, the Company also plans to offer new equity to its customers and community via the Crowdcube platform in September 2021. As one of Europe's most successfully crowdfunded companies the management has high confidence this portion of new equity will be oversubscribed. In the year to December 2020, the Company raised in excess of £13.5m on this platform and therefore the directors are confident any future fundraising would raise sufficient funds for the Company to continue to meet its liabilities as they fall due.

Should there be a delay in any of the new funding or material deviations from the budget occur management has planned strict cost control scenarios which allow for immediate actions to be taken. Additionally, the 2021 financial year will see the Company generate its first full year of revenue which the directors feel will continue to grow as the Company expands and assets under management continue to grow. At the end of June 2021, the positive deviation in the cash position compared to budget is £33,629.

This report was approved by the board on 16 August 2021 and signed on its behalf.



Simon Rabin
Director

CHIP FINANCIAL LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to 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.

Results and dividends

The loss for the year, after taxation, amounted to £6,470,428 (2019 - loss £4,125,295).

The directors do not recommend the payment of a dividend (2019: £Nil)

Directors

The directors who served during the year were:

Richard Spencer Frank
Simon Rabin
Sharon Miles (appointed 21 May 2021)
Alexander Latham (appointed 21 May 2021)

CHIP FINANCIAL LTD

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

Engagement with employees

Chip considers its most valuable asset to be its employees and places great importance on engaging with all employees through clear communications on company progress and transparency on information through the company KPIs and regular consultation and inclusion on decisions that affect the direction of the company.

Chip puts great emphasis on providing equal opportunities for all employees and ensures fair selection and development procedures apply consistently at all times. The aim of Chip's employee policies are to ensure that no job candidate or employee is treated unfairly on the basis of age, sex, sexual orientation, marital status, colour, religion, race, or ethnic origin or is disadvantaged by condition or requirements which cannot be shown as justifiable. Throughout 2020 Chip moved to fully remote working in line with government advice due to Covid-19. It must be noted that all Chip staff worked continuously throughout the 2020 lockdowns and adapted well to remote structures and systems which were implemented quickly and effectively.

Disclosure of information to auditors

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

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

Post balance sheet events

The directors can report that as of July 2021 the company has successfully converted the September 2020 Convertible loan note to equity, has begun providing core FSCS eligible infrastructure with ClearBank to Chip customers and offers investment fund for customers to earn larger returns as well.

Auditors

The auditors, Haysmacintyre LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 16 August 2021 and signed on its behalf.



Simon Rabin
Director

CHIP FINANCIAL LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS, AS A BODY, OF CHIP FINANCIAL LTD

Opinion

We have audited the financial statements of Chip Financial Ltd (the 'Company') for the year ended 31 December 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.2 in the financial statements, which indicates that there is a material uncertainty relating to the ability of the Company to obtain further capital investment and the value of this. As stated in note 2.2, these events or conditions, along with the other matters as set forth in note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

CHIP FINANCIAL LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS, AS A BODY, OF CHIP FINANCIAL LTD
(CONTINUED)

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 Auditors' 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.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

- adequate accounting records have not been kept, 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.

CHIP FINANCIAL LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS, AS A BODY, OF CHIP FINANCIAL LTD (CONTINUED)

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 Auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory requirements for the payment services business and trade regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, income tax, payroll tax and sales tax.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- inspecting correspondence with regulators and tax authorities;
- discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- evaluating management's controls designed to prevent and detect irregularities;
- identifying and testing journals, in particular journal entries posted with unusual account combinations, postings by unusual users or with unusual descriptions; and
- challenging assumptions and judgements made by management in their critical accounting estimates

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

CHIP FINANCIAL LTD

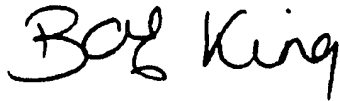
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS, AS A BODY, OF CHIP FINANCIAL LTD
(CONTINUED)

Other matters

In the previous accounting period the Directors of the Company took advantage of audit exemption under s477 of the Companies Act. Therefore the prior period financial statements were not subject to an audit.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' 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.



Bernadette King (Senior Statutory Auditor)

for and on behalf of
Haysmacintyre LLP

Statutory Auditors

10 Queen Street Place
London
EC4R 1AG

16 August 2021

CHIP FINANCIAL LTD

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £	As restated 2019 £
Turnover	3	196,601	-
Cost of sales		(1,336,247)	(610,479)
Gross loss		<u>(1,139,646)</u>	<u>(610,479)</u>
Administrative expenses		(6,659,746)	(3,786,944)
Other income	4	61,738	-
Operating loss		<u>(7,737,654)</u>	<u>(4,397,423)</u>
Interest payable and expenses	9	(227,097)	(43,985)
Loss before tax		<u>(7,964,751)</u>	<u>(4,441,408)</u>
Tax on loss		1,494,323	316,113
Loss for the financial year		<u><u>(6,470,428)</u></u>	<u><u>(4,125,295)</u></u>

The notes on pages 15 to 29 form part of these financial statements.

CHIP FINANCIAL LTD
REGISTERED NUMBER: 10113174

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 £	As restated 2019 £
Fixed assets			
Tangible assets	11	130,189	98,868
		130,189	98,868
Current assets			
Debtors: amounts falling due within one year	12	1,446,526	566,143
Cash at bank and in hand	13	10,357,696	2,993,164
		11,804,222	3,559,307
Creditors: amounts falling due within one year	14	(774,023)	(640,620)
Net current assets		11,030,199	2,918,687
Total assets less current liabilities		11,160,388	3,017,555
Creditors: amounts falling due after more than one year	15	(11,400,103)	-
Net (liabilities)/assets		(239,715)	3,017,555
Capital and reserves			
Called up share capital		3	3
Share premium account	18	12,416,376	9,705,185
Share option reserve	18	726,008	224,041
Profit and loss account	18	(13,382,102)	(6,911,674)
		(239,715)	3,017,555

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 16 August 2021.



Simon Rabin
Director

The notes on pages 15 to 29 form part of these financial statements.

CHIP FINANCIAL LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Called up share capital	Share premium account	Other reserves	Profit and loss account	Total equity
	£	£	£	£	£
At 1 January 2019	2	5,298,043	-	(2,786,379)	2,511,666
Comprehensive income for the year					
Loss for the year	-	-	-	(4,125,295)	(4,125,295)
Share option charge	-	-	224,041	-	224,041
Shares issued during the year	1	4,407,142	-	-	4,407,143
At 1 January 2020	3	9,705,185	224,041	(6,911,674)	3,017,555
Comprehensive income for the year					
Loss for the year	-	-	-	(6,470,428)	(6,470,428)
Share option charge	-	-	501,967	-	501,967
Shares issued during the year	-	2,711,191	-	-	2,711,191
At 31 December 2020	3	12,416,376	726,008	(13,382,102)	(239,715)

The notes on pages 15 to 29 form part of these financial statements.

CHIP FINANCIAL LTD

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	2020 £	2019 £
Cash flows from operating activities		
Loss for the financial year	(6,470,428)	(4,125,295)
Adjustments for:		
Depreciation of tangible assets	45,746	14,577
Government grants	(61,738)	-
Interest paid	227,097	43,985
Taxation charge	(1,494,323)	(316,113)
(Increase) in debtors	(211,680)	(263,830)
Increase in creditors	133,402	640,619
Share option charge	501,967	224,041
Corporation tax received	822,818	316,113
Net cash generated from operating activities	<u>(6,507,139)</u>	<u>(3,465,903)</u>
Cash flows from investing activities		
Purchase of tangible fixed assets	(77,068)	(74,213)
Sale of tangible fixed assets	2,804	-
Government grants received	61,738	-
Net cash from investing activities	<u>(12,526)</u>	<u>(74,213)</u>
Cash flows from financing activities		
Issue of ordinary shares	2,711,191	4,407,143
Other new loans	11,400,103	-
Interest paid	(227,097)	(43,985)
Net cash used in financing activities	<u>13,884,197</u>	<u>4,363,158</u>
Net increase in cash and cash equivalents	7,364,532	823,042
Cash and cash equivalents at beginning of year	2,993,164	2,170,122
Cash and cash equivalents at the end of year	<u>10,357,696</u>	<u>2,993,164</u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	<u>10,357,696</u>	<u>2,993,164</u>

The notes on pages 15 to 29 form part of these financial statements.

CHIP FINANCIAL LTD

ANALYSIS OF NET DEBT
FOR THE YEAR ENDED 31 DECEMBER 2020

	At 1 January 2020 £	Cash flows £	Other non- cash changes £	At 31 December 2020 £
Cash at bank and in hand	2,993,164	7,364,532	-	10,357,696
Debt due after 1 year	-	(11,173,760)	(226,343)	(11,400,103)
	<u>2,993,164</u>	<u>(3,809,228)</u>	<u>(226,343)</u>	<u>(1,042,407)</u>

The notes on pages 15 to 29 form part of these financial statements.

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. General information

Chip Financial Ltd is a private company, limited by shares, domiciled in England and Wales, registration number 10113174. The registered office and trading address is 7 Bell Yard, London, WC2A 2JR.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

The following principal accounting policies have been applied:

2.2 Going concern

The financial statements have been prepared on a going concern basis, as management believes that the Company will be able to meet its liabilities as and when they fall over the next 12 months from the date of signing of these financial statements. The directors will continue to meet their regulatory and fiduciary obligations in respect of the Company, along with taking all necessary management steps and decisions to ensure that all financial commitments can be met when they fall due in the current economic environment (also considering the COVID-19 macro-economic climate).

However, the directors recognise that there is material uncertainty that exists when operating in a high growth technology sector, where raising further capital is essential to meeting the Company's liabilities as they fall due.

At the date of writing this report management is in ongoing discussions with prospective institutional investors to raise further capital and is confident that the full process will complete before the end of December 2021. In addition, the Company also plans to offer new equity to its customers and community via the Crowdcube platform in September 2021. As one of Europe's most successfully crowdfunded companies the management has high confidence this portion of new equity will be oversubscribed. In the year to December 2020, the Company raised in excess of £13.5m on this platform and therefore the directors are confident any future fundraising would raise sufficient funds for the Company to continue to meet its liabilities as they fall due.

Should there be a delay in any of the new funding or material deviations from the budget occur management has planned strict cost control scenarios which allow for immediate actions to be taken. Additionally, the 2021 financial year will see the Company generate its first full year of revenue which the directors feel will continue to grow as the Company expands and assets under management continue to grow. At the end of June 2021, the positive deviation in the cash position compared to budget is £33,629.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.3 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss except when deferred in other comprehensive income as qualifying cash flow hedges.

2.4 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

2.5 Operating leases: the Company as lessee

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.6 Research and development

Expenditure on research and development is recognised as an expense in the period in which it is incurred.

2.7 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants of a revenue nature are recognised in the Statement of Comprehensive Income in the same period as the related expenditure.

2.8 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.9 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

2.10 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each Statement of Financial Position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the Company keeping the scheme open or the employee maintaining any contributions required by the scheme).

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 profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.11 Taxation

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.12 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	-	Over the lease term
Office equipment	-	25% straight line
Computer equipment	-	33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.13 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

2. Accounting policies (continued)

2.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

2.15 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.16 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

3. Turnover

An analysis of turnover by class of business is as follows:

	2020 £	2019 £
Digital services	196,601	-
	<hr/>	<hr/>
	196,601	-
	<hr/>	<hr/>

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	196,601	-
	<hr/>	<hr/>
	196,601	-
	<hr/>	<hr/>

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

4. Grant income

	2020 £	2019 £
CJRS grant income	61,738	-
	<u>61,738</u>	<u>-</u>

5. Operating loss

The operating loss is stated after charging:

	2020 £	2019 £
Exchange differences	8,936	6,421
Other operating lease rentals	68,056	77,925
Share based payment	501,967	224,041
	<u>561,087</u>	<u>295,545</u>

6. Auditors' remuneration

Fees payable to the Company's auditor for the audit of the Company's annual financial statements totalled £7,950 (2019 - £Nil).

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2020 £	2019 £
Wages and salaries	2,944,026	1,256,702
Social security costs	334,640	139,123
Cost of defined contribution scheme	45,026	14,935
	<u>3,323,692</u>	<u>1,410,760</u>

The average monthly number of employees, including directors, during the year was 58 (2019 - 24).

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

8. Directors' remuneration

	2020 £	2019 £
Directors' emoluments	98,055	89,500
	<u>98,055</u>	<u>89,500</u>

9. Interest payable and similar expenses

	2020 £	2019 £
Bank interest payable	754	43,985
Other loan interest payable	226,343	-
	<u>227,097</u>	<u>43,985</u>

10. Taxation

	2020 £	2019 £
Corporation tax		
Current tax on profits for the year	(987,618)	(316,113)
Adjustments in respect of previous periods	(506,705)	-
	<u>(1,494,323)</u>	<u>(316,113)</u>
Total current tax	<u>(1,494,323)</u>	<u>(316,113)</u>
Taxation on loss on ordinary activities	<u>(1,494,323)</u>	<u>(316,113)</u>

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019 - lower than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	2019 £
Loss on ordinary activities before tax	(7,964,751)	(4,441,408)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	(1,513,303)	(843,868)
Effects of:		
Expenses not deductible for tax purposes	116,173	527,755
Additional deduction for R&D expenditure	(731,459)	-
Adjustments to tax charge in respect of prior periods	(506,705)	-
Surrender of tax losses for R&D tax credit refund	306,502	-
Deferred tax not recognised	834,469	-
Total tax charge for the year	(1,494,323)	(316,113)

Factors that may affect future tax charges

Following Budget 2021 announcements, there will be a further increase in the main rate of corporation tax to 25% from 1 April 2023.

CHIP FINANCIAL LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

11. Tangible fixed assets

	Long-term leasehold property £	Office equipment £	Computer equipment £	Total £
Cost or valuation				
At 1 January 2020	3,000	6,107	106,409	115,516
Additions	-	-	77,068	77,068
Disposals	(3,000)	-	-	(3,000)
At 31 December 2020	-	6,107	183,477	189,584
Depreciation				
At 1 January 2020	196	1,379	15,074	16,649
Charge for the year	-	1,316	41,626	42,942
Disposals	(196)	-	-	(196)
At 31 December 2020	-	2,695	56,700	59,395
Net book value				
At 31 December 2020	-	3,412	126,777	130,189
At 31 December 2019	2,804	4,728	91,336	98,868

12. Debtors

	2020 £	2019 £
Trade debtors	8,058	-
Other debtors	1,083,428	510,364
Prepayments and accrued income	355,040	55,779
	<u>1,446,526</u>	<u>566,143</u>

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

13. Cash and cash equivalents

	2020 £	2019 £
Bank current accounts	10,357,696	2,993,164
	<u>10,357,696</u>	<u>2,993,164</u>

14. Creditors: Amounts falling due within one year

	2020 £	2019 £
Trade creditors	95,869	111,761
Other taxation and social security	121,030	71,793
Other creditors	16,380	9,117
Accruals and deferred income	540,744	447,949
	<u>774,023</u>	<u>640,620</u>

15. Creditors: Amounts falling due after more than one year

	2020 £	2019 £
Other loans	11,400,103	-
	<u>11,400,103</u>	<u>-</u>

CHIP FINANCIAL LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

16. Loans

Analysis of the maturity of loans is given below:

	2020 £	2019 £
Amounts falling due 2-5 years		
Other loans	11,400,103	-
	11,400,103	-
	11,400,103	-

Other loans relate to a future fund loan which was fully drawn down on 29 September 2020. This has a maturity period of 36 months, and interest is applied at 8%. There is the option for this to be repaid at a redemption premium of 100% after 36 months, or for this to convert to a 20% discount on equity at the most recent funding round. As the loan has been converted post year end, as per note 23, this has not been accounted for at fair value, and instead has been measured at amortised cost.

17. Share capital

	2020 £	2019 £
Allotted, called up and fully paid		
2 (2019 - 2) A Ordinary shares shares of £0.0000001- each	2	2
1 (2019 - 1) B Investment shares of £0.0000001 each-	1	1
	3	3
	3	3

On 31 January 2020, 50,507 A Ordinary shares were allotted at a price of £1.0369, for consideration of £52,370.

On 22 May 2020, 672,569 A Ordinary shares were allotted at a price of £1.0369, for a consideration of £697,387, and 1,847,359 B Investment shares were allotted at a price of £1.0369, for a consideration of £1,915,527.

On 31 July 2020, 149,894 A Ordinary shares were allotted at a price of £1.0369, for a consideration of £155,426 and 2,194 B Investment shares were allotted at a price of £1.0369, for a consideration of £3,021.

£112,539 of transaction costs associated with the issuing of the above shares have been deducted from share premium.

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

18. Reserves

Share premium account

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Share options reserve

The share options reserve relates to the employee share option scheme established to incentivise employees of the Company.

Profit and loss account

The profit and loss account includes all current year and prior years profits and losses.

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

19. Share based payments

The company operates two share option schemes:

- A type - providing leavers with a right to keep their vested options
- B type - whereby employees cannot keep their options upon leaving

Given that leaver assumptions are typically not included in fair value analysis, both option types are equally treated for valuation purposes.

There are 29 grant dates across the three year period which are grouped into eight groups by their date, on a quarterly basis. The options issued in the Groups either have an exercise price set according to the fair market share price at the time of issue or an exercise price of £0.0000001.

All options issued have a contractual life of ten years. None of the grants carry market-based performance conditions.

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 Black-Scholes valuation model since the share options aren't actively traded. Using an option valuation model to determine the fair value means including 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.

Across the Groups, all options have a contractual life of ten years, with either a three year or four-year vesting period for the non-market based performance conditions attached to the options. The company has applied an expected life of five years, which is halfway through the contractual life of the options. This assumption is based on empirical studies which show that employees tend to exercise their options midway through the contractual life.

The company has used an annualised median 50-day volatility for a basket of comparable companies, using data sourced from S&P Capital IQ.

The risk free interest rate considered is the implied yield on zero-coupon government issues with a remaining term equal to the expected life of the option, as at the grant date.

	Weighted average exercise price (pence) 2020	Number 2020	Weighted average exercise price (pence) 2019	Number 2019
Outstanding at the beginning of the year	32.9	3,048,559		-
Granted during the year	90.0	2,365,680	32.9	3,048,559
Outstanding at the end of the year	57.9	5,414,239	32.9	3,048,559

CHIP FINANCIAL LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

19. Share based payments (continued)

	2020	2019
Weighted average share price (pence)	103.7	38.2
Exercise price (pence)	90.0	32.9
Expected volatility	40%	35%
Expected dividend growth rate	Nil	Nil
Risk-free interest rate	0.63%	0.70%
	2020	2019
	£	£
Equity-settled schemes	5,414,239	3,048,559

20. Prior year adjustment

A prior year adjustment has also been posted to account for share options issued in 2019 but previously unaccounted for. This has led to a charge of £224,041 being recognised in the statement of comprehensive income and a corresponding amount being recognised in the share option reserve.

There has been £Nil effect on reserves brought forward in respect of this adjustment.

21. Pension commitments

The company operates a defined contribution scheme.

The assets and the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £45,026 (2019: £14,935). Contributions totalling £12,692 (2019: £6,573) were payable to the fund at the reporting date.

22. Commitments under operating leases

At 31 December 2020 the Company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	2020	2019
	£	£
Not later than 1 year	53,864	-
	53,864	-

CHIP FINANCIAL LTD

NOTES TO THE FINANCIAL STATEMENTS
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23. Post balance sheet events

As of July 2021 the Company has successfully converted the September 2020 Convertible loan note to equity.