# BUILDING A BETTER FINANCIAL WORLD

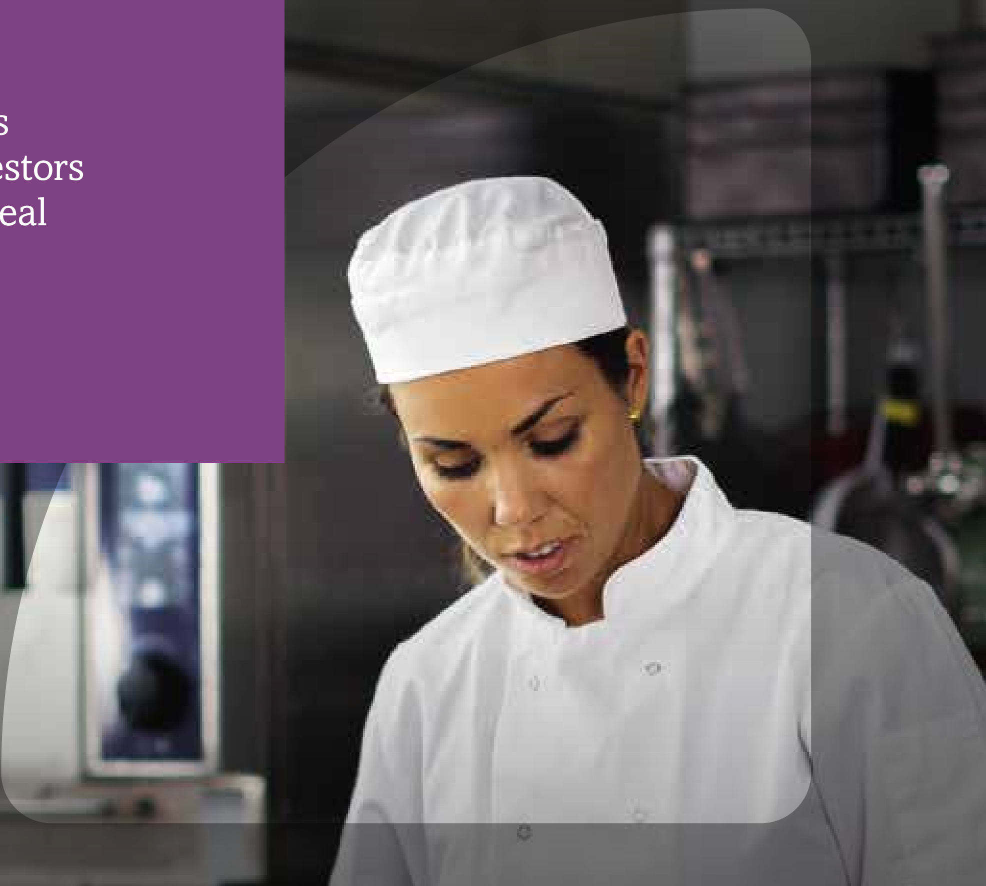
**Funding Circle Holdings plc**
Annual Report and Accounts 2018

# WE BELIEVE IN THOSE MADE TO DO MORE

We ignite opportunities for businesses and investors by providing a better deal for everyone.

Find out more at
**fundingcircle.com**

Arapina is an award-winning healthy lifestyle bakery based in Greenwich, London. Being an avid home baker, founder Michaela began trading in food markets in 2013 with one single product – the Arapina chocolate cake. Her delectable treat was an instant hit, and she started to receive requests from wholesalers. Demand kept growing and there quickly became a need to relocate into a larger premises. In order to fit out the new cafe and kitchen, Michaela borrowed finance through Funding Circle in 2017.



## Contents

# Highlights

## Financial and operational highlights

### Leading lending platform in the UK, US, Germany and the Netherlands
- Loans under management now exceeding £3 billion (up 55% excl. property)
- Originations of £2.3 billion (up 40% excl. property)

### Strong repeat dynamics from existing investors and borrowers
- 43% of Group revenue from existing customers
- 74% of lending came from existing investors in 2018; 85% of borrowers would approach Funding Circle first in the future, rather than their bank

### Deep and diverse investor base
- 85,000 investors lent money directly to SMEs in 2018
- New lending commitments signed, including Waterfall Asset Management (£1 billion) and the British Business Bank (£150 million)

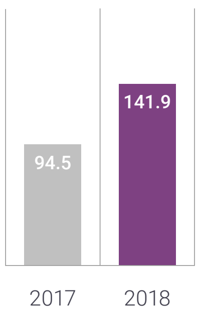
### Market-leading customer satisfaction scores for borrowers
- 27,000 SMEs accessed finance through our platform in 2018
- Net promoter score between 80–90 for borrowers in the UK and US

### Building dynamic team
- 217 Circlers joined in 2018 – bringing us to approximately 1,000 globally

### Strong Group performance delivering IPO guidance whilst investing for growth
- Revenue of £141.9 million (up 55% excl. property)
- Positive segment adjusted EBITDA of £7.0 million
- Marketing as a % of revenue maintained at ~40%
- Loss before tax of £50.7 million

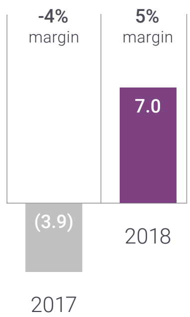
Revenue

**£141.9m**



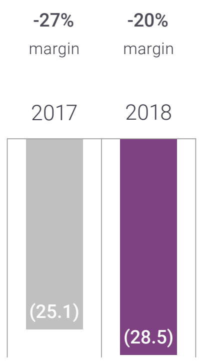

Segment adjusted EBITDA*

**£7.0m**



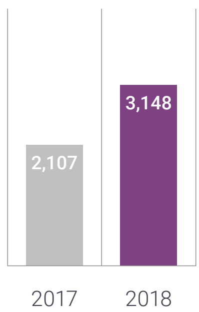

Adjusted EBITDA*

**£(28.5)m**



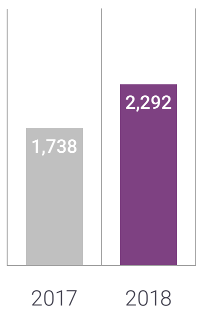

Loans under management

**£3.1bn**




Originations

**£2.3bn**




* Segment adjusted EBITDA is defined as operating profit or loss before depreciation and amortisation, share-based payments and associated social security costs, foreign exchange gains/(losses), exceptional items and central costs. Adjusted EBITDA includes central costs. A reconciliation to operating profit or loss is shown in note 4 on page 111.

# About Funding Circle

Funding Circle's aim is to help SMEs grow by providing them with streamlined access to capital.

## Who we are

**Funding Circle is a leading global SME loan platform. By combining cutting-edge technology, sophisticated data analytics and dedicated customer service, we help SMEs access finance that allows them to grow and expand. We're also opening up a whole new asset class to investors, to whom we provide stable returns and a range of investment options.**

## The vital role of SMEs

SMEs play a vital role in society, driving economic growth, employment and innovation. In fact, each year they're responsible for 50–60% of economic value creation in the OECD region. But despite their importance to the global economy, SMEs are often overlooked, underserved and undersupported. Globally around 53% of SMEs say it's difficult to gain access to capital.

Through our platform, we're helping SMEs to overcome major barriers to growth and, in turn, make significant contributions to the global economy.

In the decade since the global financial crisis, the supply of lending to SMEs by banks has become more restricted. In the UK alone, total outstanding borrowing facilities from traditional banks to SMEs have declined by 12%, from £189 billion in 2011 to £166 billion in 2018.

Structural issues, such as increased capital requirements under Basel III regulation, have also caused banks to pull back from lending to SMEs. As a result, banks have tended to focus on larger corporates and consumer lending.

But thanks to online lending platforms like ours, the situation is changing.

## Where we operate

We help small businesses to access finance in the UK, the US, Germany and the Netherlands.

Cumulative lending to date (from 2010):

**$1.9bn**
US cumulative lending

**£4.6bn**
UK cumulative lending

**€210m**
Germany cumulative lending

**€140m**
Netherlands cumulative lending

**50–60%***
of economic value is generated by SMEs

**99%***
of all firms are SMEs

**70%***
of employment is provided by SMEs

**23%***
projected increase in SME revenue from 2017–2021

*Source: OECD.

Throughout the report we refer to statistics and numbers excluding property finance. This is because in 2017, Funding Circle took the decision to cease lending to property developers in the UK, the one market in which it had previously expanded its product set beyond amortising SME loans. As a result, this is excluded when measuring ongoing business performance.

# A LONG WAY IN A SHORT TIME

August 2010
**Funding Circle founded by Samir Desai, James Meekings and Andrew Mullinger**

September 2012
**£50 million funded through the platform by UK retail investors**

March 2013
**The British Government started lending through the platform**

October 2013
**Expanded into the US, acquiring Endurance Lending Network (now Funding Circle)**

October 2015
**£1 billion funded through the platform and expanded into Germany and the Netherlands, acquiring Zencap (now Funding Circle)**

December 2015
**Launch of FCIF – a listed investment fund lending across all Funding Circle geographies**

June 2016
**£100 million lending partnership agreed between Funding Circle and the European Investment Bank**

May 2017
**Funding Circle UK granted full authorisation by the FCA**

August 2017
**Lending partnership in the UK between Funding Circle and Aegon**

June 2018
**£5 billion lent through the platform**

September 2018
**$1 billion lending partnership in the US between Funding Circle and Alcentra**

October 2018
**IPO on London Stock Exchange**

December 2018
**£1 billion lending partnership in the UK between Funding Circle and Waterfall Asset Management**

In September 2018 we launched our Help Your Business Fly campaign.

# BUILDING A BETTER FINANCIAL WORLD

Andrew, James and I launched Funding Circle in 2010 with the ambition of rewiring access to finance for small businesses. We believed the lending market for small businesses both in the UK and globally was underserved, and there was an opportunity to address this imbalance. Eight years later, thousands of investors have lent more than £6 billion to over 60,000 small businesses and Funding Circle is recognised as the leading small business loan platform in the UK, the US, Germany and the Netherlands.

## SME financing is broken

SMEs are the lifeblood of an economy, providing employment, growth and innovation. However, as they represent a tiny proportion of banks' overall balance sheets, they have been repeatedly underserved by the traditional banking system and very little has changed in the ten years since the financial crisis. What has changed, however, is the ability to solve this problem. At Funding Circle, our global online platform allows a wide range of investors to lend directly to small businesses, creating a 21st century way to access finance, and opens up an attractive and stable asset class previously only ever held on bank balance sheets.

We have attracted a diverse mix of investors, drawn by our competitive rates of return, including more than 85,000 individuals, banks, asset management companies, insurance companies, and national and supranational entities such as the British Business Bank, KfW and the European Investment Bank. They have remained with us as we have grown loans under management year-on-year.

## Funding Circle helps those made to do more

Every day I am inspired by the work of our team to help businesses around the world access the finance they need to fulfil their dreams. These businesses are the unsung heroes of our economy. From butchers and bakers, to IT consultants and accountants, these are the businesses that are made to do more. At the end of 2017, loans outstanding at Funding Circle had unlocked 75,000 jobs across the four markets we operate in. It is our mission to build a better financial world, where small businesses receive the treatment they deserve and access the finance they need in a fast and affordable way, and investors can earn attractive stable returns.

## 2018 financial highlights

2018 was a strong year for Funding Circle. Over the period, our Group revenue for the year grew 55% (excluding property) to £141.9 million, exceeding the c.50% guidance we provided. It was also pleasing to report a positive segment adjusted EBITDA of £7 million.

Our key drivers of growth are loans under management and originations. In 2018, loans under management rose 55% year-on-year, exceeding £3 billion. Loan originations grew 40% to £2.3 billion for the year, and we were especially proud that in 2018 in the UK, net lending (£723 million) to SMEs through Funding Circle was higher than all UK high street banks combined (£515 million). This is testament to the exceptional customer experience we deliver to both borrowers and investors.

This exceptional level of service leads to high satisfaction scores and strong and consistent repeat behaviour. I am proud that in 2018, 43% of our Group revenue came from existing customers.

In October we raised gross proceeds of £300 million through our IPO on the London Stock Exchange and were admitted into the FTSE 250 at the end of the year. I would like to welcome all of our new shareholders who joined us at the IPO as well as those that have joined since. It is fantastic to have you on board.

## 2018 operational highlights

Last year there were record levels of lending across all of our geographies, helping more than 27,000 businesses globally.

In the UK, we were pleased to welcome a number of new investors to the platform, including Waterfall Asset Management, who announced plans to lend £1 billion in the UK over the next two years. In addition, government and supranational entities continued to play a valuable role supporting UK small businesses. The European Investment Fund and KfW, the German Promotional Bank, announced their investment in a securitisation of loans originated by Funding Circle in May, and in December the British Business Bank confirmed plans to lend £150 million to UK businesses through the Funding Circle SME Income Fund. Finally in September, we were delighted to launch Captain Galactic on to people's screens with our new TV advertising campaign. The campaign is focused on helping those who want to go further with their business and we have enjoyed the positive reaction to it.

Our international business continues to go from strength to strength and now represents approximately 30% of our overall business. In the US we delivered record growth in loans under management to $939 million and originations of $792 million. And in September we welcomed Alcentra as a new investor, who announced plans to lend $1 billion to US small businesses over the next three years.

Our youngest markets, Germany and the Netherlands, continued their positive trajectory with both businesses doubling year-on-year and establishing industry leadership positions in their markets.

## Our FC2020 strategy

At the start of 2018 we launched FC2020, our medium-term strategic plan. Our goal is to grow our business so that it becomes an integral and important component of the financing of SMEs globally. We envisage a financial system where a significant proportion of SME funding needs are addressed by online lending platforms, such as Funding Circle. FC2020 is about how we achieve our exciting and inspiring long-term mission over the next few years.

The plan is based on four key pillars that focus on how we delight our customers:

1) Drive a better borrower experience

2) Invest in modern data, tech and analytics

3) Diversify funding sources

4) Build a highly scalable global business

Delivering against this plan will lead to a step-change for our business. We have already made excellent progress against each of the pillars over the last 12 months and we will continue to invest in these areas.

We also want to continue to build on our market leadership position in each of the geographies we operate in. In the UK, the US, Germany and the Netherlands, we are the number one online lending platform for SMEs. However, we remain approximately a 0.5% share of the combined global addressable market and there is significant opportunity to increase this substantially over the medium term.

## People are what makes Funding Circle a success

All of our successes last year would not be possible without the exceptional talent of the Funding Circle team. Building an open and transparent culture has been critical to us since we first launched the business. We believe that being a great place to work is an end in itself, and it is our aim to be the best FinTech company to work for globally. We are proud that every employee in Funding Circle is a shareholder. In 2018 we were also delighted to be named as the 16th Best UK Company to Work For in The Sunday Times' 2018 annual survey. I am immensely proud of the fantastically talented team we have built and I would like to thank them for all their hard work and commitment.

## Brexit

We recognise the increasing economic uncertainty caused by Brexit and we remain vigilant and prepared for the possible outcomes. Our international operations represent approximately 30% of our overall business and our UK business is not directly affected on a day-to-day operational basis by the prospect of the UK leaving the EU. However, we continue to monitor macroeconomic indicators for any possible impact on UK SMEs. Whilst current business insolvencies remain low, we regularly stress test the loanbooks in each of our geographies to ensure that investor returns would remain resilient in an economic downturn.

## Looking ahead

Our business is in strong condition. Over the past eight years we have proven that Funding Circle is a mechanism for individuals, institutions and governments to channel funds through to the real economy and we will continue to support small businesses to access the finance they need to grow and create jobs.

2018 was a milestone year for Funding Circle and I am humbled by everything we have achieved so far as a company. But we have big ambitions and are really only just getting started. For 2019 we have set ourselves high targets for growing our business volumes and diversifying our customer base further. This means investing in marketing to build customer awareness, and investing in technology to automate what we do and continue to enhance our sophisticated risk assessment models. Over the next 12 months we will also launch new investor products and expand into Canada, helping creditworthy Canadian SMEs to access the finance they need to grow and stimulate job creation. I look forward to updating you on our progress through 2019.

**Samir Desai**
Chief Executive Officer
7 March 2019

# WHAT MAKES FUNDING CIRCLE UNIQUE

## Leading platform in underserved market

Funding Circle operates in a segment where SMEs have been underserved and dissatisfied with traditional lenders

## Superior value proposition

Superior value proposition for both borrowers and investors drives strong repeat rates

## Virtuous network effects

Virtuous network effects driven by scale and an attractive underlying business model

## Sophisticated technology and data

Sophisticated technology, data and analytics drive superior customer experience and competitive advantage

## Strong growth opportunities

Compelling growth opportunities with an improving financial profile

## Founder-led entrepreneurial culture

Founder-led and experienced management team with entrepreneurial culture

# An important year

## The year 2018

This has been a transformational year for Funding Circle. In October, less than nine years after the business was little more than an idea in the minds of three young founders above a waffle shop in Oxford Street, it successfully listed on the Premium segment of the London Stock Exchange. We raised £300 million and in December Funding Circle joined the FTSE 250 index.

At the time of our IPO, we indicated a range of performance targets. We have either reached or exceeded all those that fell in 2018.

## Delivering on our strategy

Our mission is to build a better financial world. The model we use to achieve this is simple – a platform which connects investors who have money to lend with businesses who need capital.

This simple model, however, is complex to implement as we balance the needs of hundreds of thousands of small businesses with billions of pounds of capital from investors. And our implementation is only successful if we can deliver the right balance between our borrowers' need for easy, quick and fair access to capital and our investors' need for an attractive and consistently positive return.

We know that we are doing many things well as we pursue our mission. We know that our borrowers tell us their experiences with Funding Circle are incomparably better than their experiences with the traditional banking sector. We know that the lending we facilitate to SMEs has a hugely beneficial impact on the economies in which we operate. We know that a diversified portfolio of our business loans produces consistently positive net returns for investors, which are significantly above what they can earn from elsewhere.

## The year ahead

We are confident of continued strong growth in 2019, but we are by no means complacent. We will only succeed if we continue to serve our customers through both the good and the not so good times. Funding Circle was born out of the global financial crisis when SMEs found it almost impossible to secure funding from traditional banking sources. If economic conditions again turn adverse, we will do all we can to ensure that the Company continues to find funds for SMEs.

To that end, the funds raised at IPO have provided us with a strong balance sheet. This will enable us both to invest in our long-term growth and to take advantage of opportunities to support our business model. The combination of our market position, financial strength and the best team in the business gives us full confidence in Funding Circle's prospects in 2019 and over the longer term.

## Our team and our governance

I am enormously fortunate and proud to be Chairman of a business which has such strong values, pursued by a team overflowing with passion, commitment and talent.

Our Chief Executive and founder, Samir Desai, has assembled a group of people that share his vision and commitment to

striving to always be the best in every aspect of what we do, whether it is in assessing risk, talking with our customers or interacting with colleagues.

The core culture of the team is consistently apparent through all our offices. It will be important as a public company to maintain this culture as well as the creativity, imagination and dynamism which have been the hallmarks of Funding Circle's success to date and are the hallmarks of so many of the small businesses we serve.

At the same time and for several years prior to listing, we have focused on maintaining effective corporate governance. The Board is committed to compliance with the UK Corporate Governance Code and full details of the work of the Board and its Committees are set out in the Corporate Governance Report. We established an open and transparent communication with our shareholders as we advanced through the listing process, and we shall seek to maintain this going forward.

In anticipation of becoming a public company, we strengthened the Board by appointing two new Directors – Geeta Gopalan and Cath Keers – both of whom have substantial public company experience and are already adding valuable insight and expertise to Board and Committee business.

I wish to thank our investors who have supported the Company in its private guise and continue to do so now that we are a public company. They have always understood the potential of Funding Circle and their long-term support is hugely appreciated. I would also like to warmly welcome all our new shareholders, large and small – not least those individuals who were already investors as lenders through our platform.

Finally, I'd like to thank all my colleagues for their extraordinary endeavours throughout the past year, where they have risen to the challenge of transforming Funding Circle into a public company, while meeting the increasing demands of the rapidly developing business.

**Andrew Learoyd**
Non-Executive Chairman
7 March 2019

# Delivering our strategy

## 1. Drive a better borrower experience

**Improving the borrower experience and increasing brand awareness support our efforts to expand our presence in those areas where we currently do business.**

### Our strategy in action

We've consistently achieved strong customer satisfaction and repeat business. By focusing on price, access and engagement, and by investing in technology and data analytics, we aim to improve convenience and efficiency to enhance the overall experience of our borrowers. We also plan to boost brand visibility through increased marketing activity.

**Link to KPIs:**

- Loans under management
- Originations
- Marketing as a % of revenue
- Revenue
- Segment adjusted EBITDA

## 2. Invest in data, tech and analytics

**Innovation is central to our strategy. By investing in data, analytics and technology, we'll continue to increase automation, enhance our credit models and improve the customer experience.**

### Our strategy in action

Our approach involves optimising value and managing credit risk across the entire spectrum of borrower engagement. Our plan is to expand our data sets and invest in analytical tools to create more personalised processes, improving price and access for borrowers. To this end, we're developing a unified money and loan management platform for all our markets.

**Link to KPIs:**

- Loans under management
- Originations
- Adjusted EBITDA

## 3. Diversify funding sources

**We focus on diversifying our funding base, attracting long-term commitments from investors and enhancing the predictability and stability of investments.**

### Our strategy in action

Since Funding Circle launched, we have consistently focused on diversifying funding sources. We began offering fractional loans to retail investors. In 2013, we launched a whole loan programme focused on institutional investors. We continue to provide investors with new ways to access Funding Circle loans, including launching new fund and bond products.

**Link to KPIs:**

- Loans under management
- Originations
- Revenue
- Segment adjusted EBITDA

## 4. Build a highly scalable global business

**Our main aim is to continue growing as a leader in the platform lending industry. We believe there's an opportunity to reach new markets and build an even larger base of SMEs and investors.**

### Our strategy in action

We have a strong track record of identifying and grasping expansion opportunities, as our growth rates in the US, Germany and the Netherlands testify. We'll continue to explore market opportunities, either through organic growth or acquisitions, basing our assessments on SME demand, investor sentiment, operational complexity and data availability.

**Link to KPIs:**

- Loans under management
- Originations
- Revenue
- Loss before tax
- Segment adjusted EBITDA
- Adjusted EBITDA
- EPS
- Free cash flow
- Marketing as % of revenue

## Willie Powells

Willie D. Powells III worked tirelessly to build a client base for his Houston, Texas law practice over more than a decade, securing significant settlements along the way. In recent years he had been looking for ways to grow the Law Offices of Willie D. Powells III and Associates, PLLC, more rapidly.

With a loan from Funding Circle, Willie plans to double or even triple the size of his client base with an investment in marketing, including TV commercials. He also plans to beef up his office with additional personnel.

**"I'm very excited for everything we have in store. All the steps we've taken since partnering with Funding Circle have been a success."**

Willie Powells
Founder of the Law Offices
of Willie D. Powells III and Associates, PLLC

# How our business operates

## Investors

Thanks to our online lending platform, a wide range of investors are now able to invest in SME loans. The platform enables both large and small investors to make incremental investments, and our investor base is deep, diverse and stable – ranging from retail investors to public bodies.

Since 2016, 40% of funding through our platform has come from global investors.

# Borrowers

At Funding Circle, we focus exclusively on SME lending. Our borrower base is highly diversified across geographies and industries, which helps to ensure stable returns and mitigate the effects of adverse economic conditions.

As of 31 December 2018, borrowers across our geographies had on average around £950,000 of revenue, eight employees, a ten-year trading history and an average loan size of £70,000.

## Our platform

**At Funding Circle, our aim is to help SMEs grow by providing them with streamlined access to capital. To support this, we've developed a highly efficient and effective platform that enables SMEs to borrow money directly from investors.**

The platform uses cutting-edge technology, proprietary credit models and sophisticated data analytics, creating a uniquely attractive and convenient proposition for borrowers and investors alike. It also provides high repeat rates, helping us to grow alongside our customers.

Through our platform, we're able to serve and build long-term relationships with borrowers, providing them with the fast and flexible financing they need. For investors, the platform opens up an alternative asset class with attractive risk-adjusted returns.

## How we generate revenue

**We generate revenue in two primary ways:**

i) A transaction fee – typically ranging between 1% and 7% of the original principal balance of the loan, which is deducted from the loan proceeds paid to the borrower.

ii) An ongoing servicing fee – of 1% per annum, calculated monthly on each loan (in most instances as a percentage of the outstanding principal balance of a performing loan).

## The virtuous circle

**We believe that the nature and scale of our business model creates a "virtuous circle" that will continue to enhance our competitive position and market share around the world.**

The speed, price, access and convenience of our offer are highly attractive to SMEs. As more SMEs come on board, we're able to accumulate more data and improve the precision of our risk models, leading to higher acceptance rates and lower pricing for borrowers.

For investors, our platform presents an opportunity to quickly invest in a highly diversified loan portfolio, and to invest large sums of capital should they wish to do so. We also have a strong track record of delivering stable returns.

As more investors join the platform, the more valuable the platform becomes for the investment community. This then further enhances borrowers' abilities to find loans quickly and efficiently. In 2018, 74% of lending came from existing investors.

**Read more about our borrower proposition on page 16**
**Read more about our investor proposition on page 20**
**Read more about the virtuous circle on page 22**

# Leading platform in underserved market

## SME market overview

Over the past decade, SMEs across various industries have been able to streamline their processes, increase their productivity and reach new geographies thanks to innovation in technology. But when it comes to funding, traditional lenders have not kept pace with change.

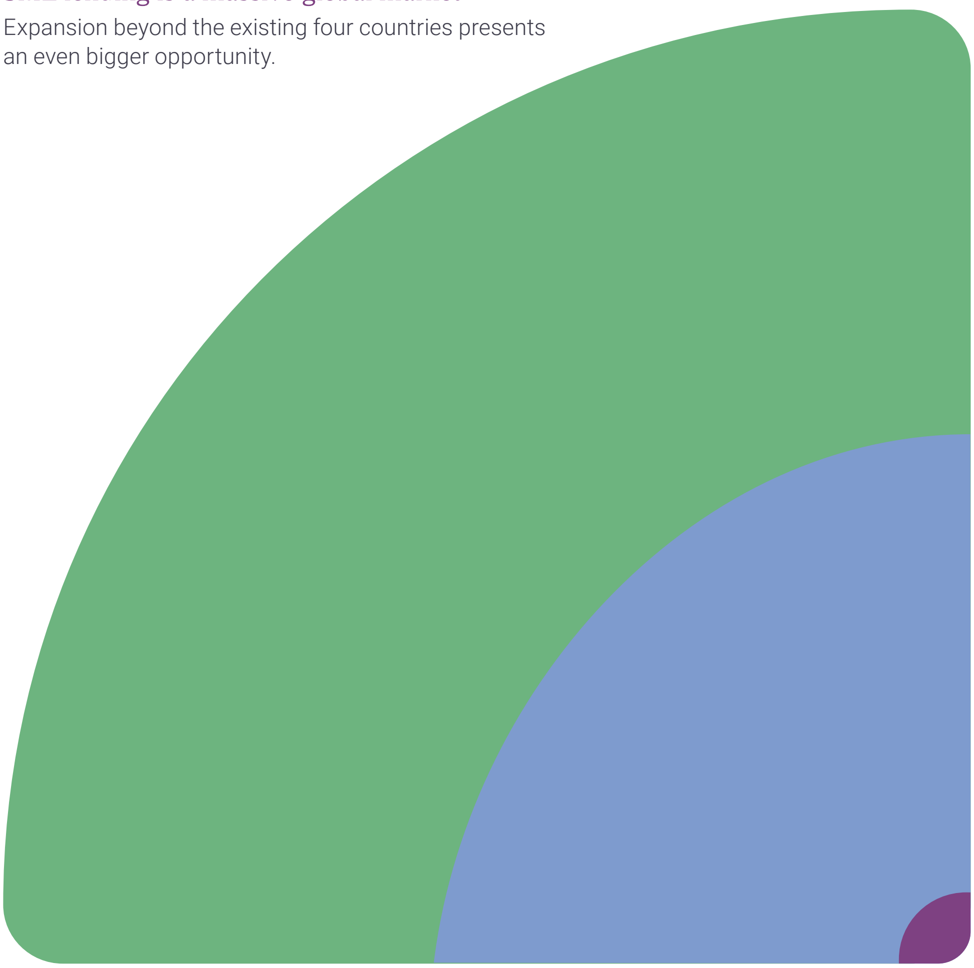
## Our market

### SME lending market size

The SME lending market is vast and underserved. In the four countries where we operate, the aggregate market for SME debt financing is around £1.2 trillion of loans outstanding. Taking our current participation and strategy into account, the total addressable market is estimated at £470 billion.

### SME lending is a massive global market

Expansion beyond the existing four countries presents an even bigger opportunity.




1. Funding Circle's estimated total addressable market excludes certain segments from the total SME debt finance market, including without limitation commercial mortgages and loans of more than £500,000, as well as loans having an interest rate of more than 25%.

# Our competitors

## The competitive landscape

Thanks to recent developments and technological advances, more organisations are providing dedicated products, services and support to small businesses. We are one of them.

Indeed, the rise of online lending platforms has been hugely beneficial. Matching borrowers and investors directly, lending platforms like Funding Circle have become an important source of finance for SMEs.

Over the last ten years, governments have also introduced initiatives to support SME lending and promote more choice and competition within the market. Recent UK regulation, for example, encourages the development of financial products and services for SMEs. Meanwhile the UK Government-owned British Business Bank and the European Investment Bank are now investing in small business loans through platforms like ours, recognising the model as an efficient mechanism to stimulate the real economy.

As a result of these changes, the competitive landscape in which we operate is now made up of:

### Traditional banks

Despite the transformation of the SME funding landscape since the global financial crisis, banks continue to be the dominant players in terms of overall SME lending volume in each of our markets. These markets have different concentration characteristics, with high concentration in the UK and the Netherlands, and high fragmentation in the US and Germany. The outcome for SMEs has been the same, with limited innovation in SME lending.

### Lending platforms

Online lending platforms provide an alternative source of funding for SMEs. Emerging around the world, they offer fast and flexible financing at competitive prices through a simple online application, often resulting in a better experience for borrower and investor alike. The combination of borrower demand and investor supply enables online lending platforms to compete with banks in SME lending and unlock loans that remain unattractive to banks.

The emergence of online lending platforms has been most prominent in the UK, the US and China, although the trend is developing globally. Today, a wide variety of online lending platforms offer a range of financing products, including unsecured and secured loans, short-term working capital loans, asset-backed loans and property development loans.

### Specialist lenders

Specialist lenders serve a smaller portion of the overall market. They differentiate themselves by offering very short-term loans at short notice, often to resolve liquidity issues.

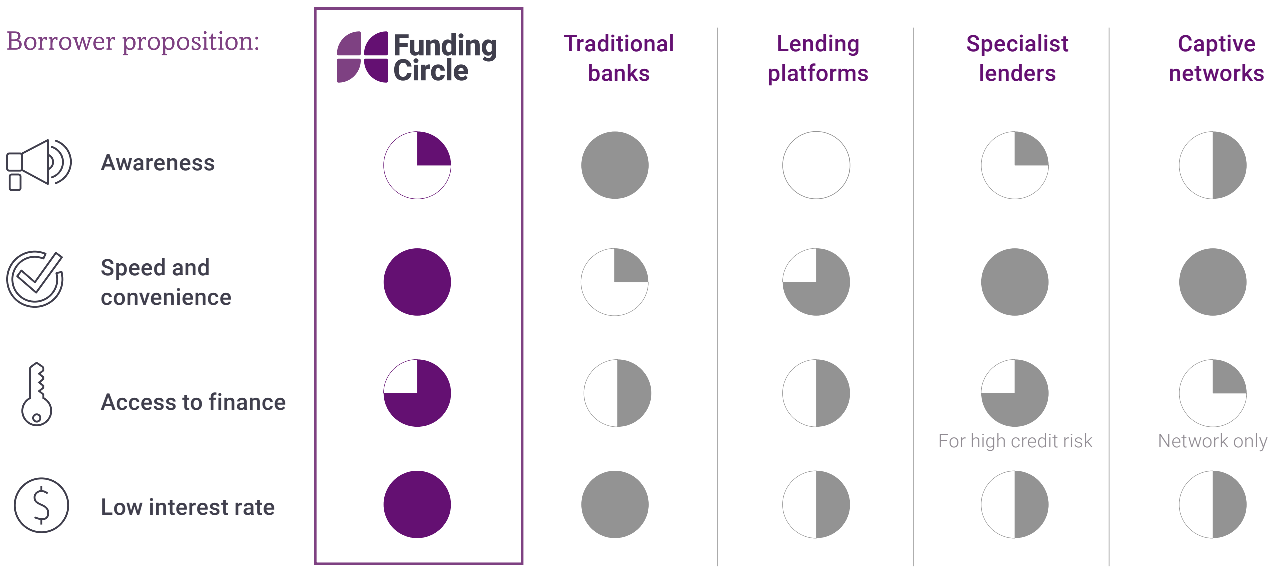
There are a number of different types of specialist lenders, who are either focused on specific segments by product, such as asset finance or invoice finance, or on specific segments by SME group, such as short-term financing at higher interest rates.

### Captive networks

In recent years, e-commerce platforms and payment processors have started providing lending products to their "captive" customer base. These networks tend to serve specific industry segments of smaller SMEs with short-term, lower-sized loans. For example, SMEs are now able to access working capital loans via Amazon, PayPal or Square, with repayments often deducted from the sales made on these platforms.

Captive network lenders benefit from being able to see a substantial portion of their borrowers' financial and transactional activities. But as they focus mainly on lending products to SMEs which use their services, their borrower base remains relatively small.

## Four major groups of competitors in SME space




SNAPPY
SNAPPY
ZOO
FLIPPIN' FROGS

# GET UP AND GROW


## Ambic Ltd

Ambic is a long-established UK manufacturer focused on making and fitting educational furniture, laboratory furniture and fire doors. They supply schools, universities and offices in the North East of England and pride themselves on the quality of their furniture; and the experience their staff bring to the field. To help replenish working capital during busy back to school periods, Ambic has accessed £160,000 through Funding Circle across two loans since 2013.

**Amount borrowed by Ambic Ltd**

**£160,000**

# Fast flexible finance

At Funding Circle, we combine sophisticated technology with a human touch. In addition to our cutting-edge lending software and programmes, our dedicated account managers ensure the smooth running of all customer applications and relationships.

## An industry-leading borrower service

Delivering on price, speed, access and convenience, we provide a service to SME borrowers that is first class. Through a simple online application, we deliver fast, flexible and competitively priced products. This offer is underpinned by expert risk management and analytics, enabling us to offer:

**Speed and simplicity:**

- Our simple online application is faster and easier than traditional lending channels, meaning SMEs can access the capital they need in days rather than months. It typically takes around ten minutes to complete the application process, and only a small number of additional documents are required. We generally make credit decisions within 24 hours in the UK, and within one to three days in the Netherlands, Germany and the US.

**Competitive market-driven pricing:**

- Our online platform lending model provides competitive and transparent pricing for borrowers – starting at 1.9% a year for an A+ rated six-month loan in the UK.

**Outstanding customer experience and ease of use:**

- We're continually focused on delivering excellent customer service. Our aim is to enhance the user experience and make the application process as efficient as possible.

By creating what is effectively a bond market for SMEs, we've enabled access to a diverse range of investors. This diversity offers SMEs more robust funding in the event of an economic downturn. Six months after the UK's EU referendum, the British Business Bank committed £40 million to lend through our platform to help stimulate the UK's small business ecosystem.

And it's a model SMEs appreciate. Indeed, the appeal of our value proposition for borrowers is reflected in our high customer satisfaction scores. In both the UK and the US, we achieved a net promoter score between 80 and 90 in 2018, which is a "world class" ranking. These high levels of satisfaction encourage repeat custom.

In 2018, 35% of all originations generated through our platform were to repeat borrowers. According to a 2018 survey conducted by Oxford Economics, 85% of our borrowers said they would approach us first should they need additional financing in the future.

**80–90 NPS**

Net promoter score in UK and US in 2018

**35%**

of all originations were repeat borrowers in 2018

**85%**

of our borrowers said they would approach us first should they need additional financing in the future

## The average borrower

Funding Circle focuses exclusively on SME lending. Borrowers across Funding Circle's geographies have, on average, approximately £950,000 of revenue per annum, eight employees and a trading history of ten years. The average loan size is approximately £70,000.

Loans originated through Funding Circle's platform are fully amortising, with terms ranging between six and 60 months and an average loan term of 52 months. Interest rates on loans originated through the platform have averaged approximately 11%. Borrowers must have a trading history of at least two years.

Funding Circle benefits from a highly diversified borrower base across geographies and industries, largely in line with the general population of SMEs, which helps to ensure stable returns and mitigates the adverse effects of a downturn in the economy.

**10 years**
of trading history

**£950,000**
annual turnover

**8**
employees

**"Funding Circle convinced me: finance that I could access quickly and without much hassle."**

## Weitblick

Thomas Lerch is the owner of Hotel Weitblick in the Bavarian Alps. "Weitblick" means "wide view" or "foresight" – a truly fitting name for the panoramic view guests enjoy. With 30 years of experience in the hospitality business and two established hotels in the area, Thomas decided to build a new four-star wellness and conference facility. With a loan from Funding Circle he hired and trained 70 new staff for the grand opening. The investment paid off: in its first year Hotel Weitblick already had a turnover of €1,000,000.

# GOING FURTHER

## Manna Lebensmittel

Manna Lebensmittel is a wholesale supermarket and delicatessen offering a large selection of high-quality Greek food brands in Bad Cannstatt, a part of Stuttgart. Managing Director and Owner Konstantinos Chatziantoniadis accessed €140,000 through Funding Circle in early 2018 to expand his product range and increase his inventory.

**Amount borrowed by Manna Lebensmittel**

**€140,000**


feuchtig mit

# Attractive stable returns

Through our online lending platform and model, a wide range of investors are now able to access SME loans, which were previously only held on bank balance sheets. In this way, we've opened up a new asset class to investors and enabled them to receive attractive, risk-adjusted returns.

### We attract a diverse and sustainable investor base

| | |
|---|---|
| Institutional direct lending | 50% |
| Funding Circle SME Income Fund | 12% |
| National and supranational entities | 6% |
| Retail | 32% |

The diversity of our investor base is testimony to the appeal of our value proposition. Since 2016, 40% of lending through our platform has come from investors lending in multiple Funding Circle geographies, reinforcing our scale and providing a deep and stable source of funding. We've attracted retail and accredited investors, asset management companies, insurance companies, government-backed entities and funds – both public and private. We also work with institutional investors on securitisation programmes which are marketed as SBOLT.

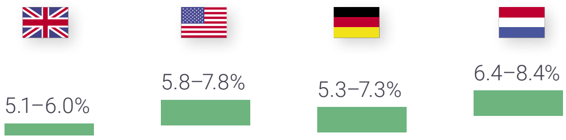
Our ability to attract such investors is partly due to our reputation for delivering attractive returns and stable bad debt rates. Our credit assessment process combines technology with advanced data analytics and proprietary risk models. And our specialist Collections, Servicing and Recoveries team works closely with borrowers who run into difficulty, which results in industry-leading collections across all of our geographies.

After an initial investment period of two to three years in any new market, we're able to provide healthy yields to investors. Globally, investors are projected to earn returns ranging from 5% to 8% on loans originated in 2018.

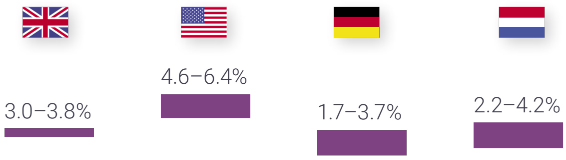
Our strong investment track record has led to high investor retention rates. In 2018, 74% of lending came from existing investors.

What's more, we regularly stress test our loans to assess the potential impact of adverse economic conditions on our loanbook. Covering various recessionary scenarios, our tests suggest that, even in a major economic downturn, our investors would still make positive returns.

### Projected annualised investor returns for loans originated in 2018, by geography[1]



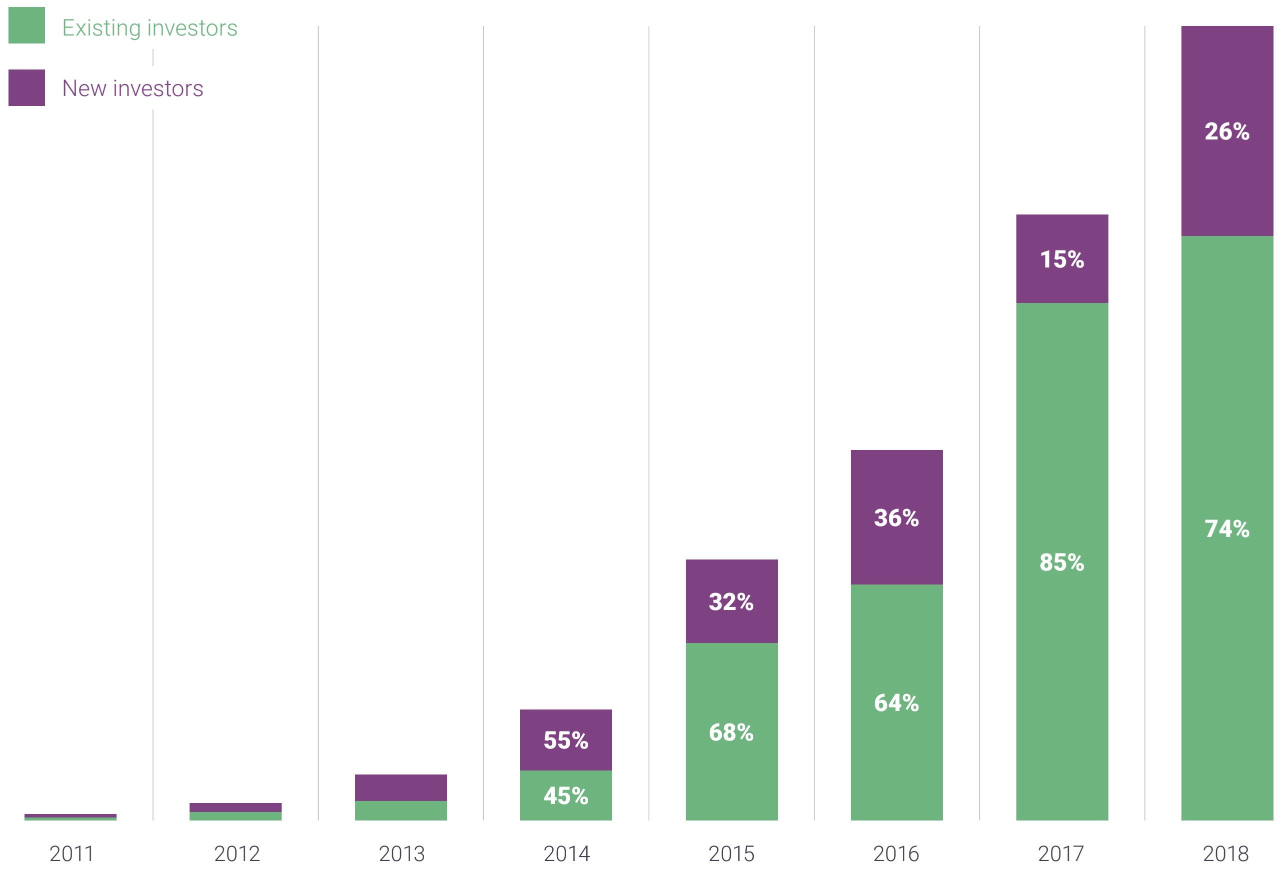

### Projected bad debt rate for loans originated in 2018, by geography[2]




1 The graph shows how loans are estimated to perform. Loans are shown by the year they were taken out, and are after fees and bad debt. Returns equal gross yield minus net losses minus servicing fee and are estimated, using an internally managed model, by cohort of origination incorporating actual returns received for each cohort and adding future expected returns which are determined by using the same aforementioned model. These expectations may be revised for example if macroeconomic conditions change and the projected return, projected gross yield and projected bad debt rate may be adjusted to reflect this.

2 The graph shows the projected annualised percentage of loans, by loan amount, that will not be repaid. Loans are shown by the year they were taken out and include recoveries. It can take up to five years for loans to be fully repaid, so the projected return, projected gross yield and projected bad debt rate take into account how each year of loans are performing and how Funding Circle expects them to perform in future. These expectations may be revisited, for example if macroeconomic conditions change, and the projected return, projected gross yield and projected bad debt rate may be adjusted to reflect this.

Existing investors continue to grow investment over time




## Other key aspects of our investor value proposition include:

**Passive investment:**

- All institutional and retail investors, with the exception of retail investors in Germany and the Netherlands and accredited investors in the US, invest passively through our platform.

**Random allocation:**

- All investors are randomly allocated loans. In each geography, retail investors purchase fractional loan parts and institutional investors purchase whole loans.

**Diversification:**

- We enable investors to lend in a variety of ways, across all of our markets, and deliver appropriate structures for different types of investors. By diversifying our portfolio, we help to manage risk for investors.

**Risk management and credit assessment:**

- We blend practices from the financial services industry with innovation in technology to manage risk for all investors.
- We combine cutting-edge technology with the use of proprietary scoring models and data analytics techniques. This enhances the precision and efficiency of our credit risk and performance predictions.
- We continuously monitor credit risk with a range of measures, including external indicators by region and sector, internal risk indicators and portfolio performance, and we are able to react and implement changes quickly.

**Combined expertise:**

- Our experienced Credit Assessment team works hand in hand with our Product and Engineering teams, offering a unique mix of expertise to enhance our investor proposition.

# Technology and data

Technology, data and advanced analytics are at the heart of our business proposition. Through the development of customer-centric technology, we've created an agile, responsive and unified money and loan management platform. Having built our technology from scratch, unlike many traditional banks we're not burdened by the challenges and costs associated with legacy systems. We can therefore devote our resources to developing, innovating and further enhancing our bespoke technology.

In 2018, we began the first stage of unifying all of our geographies on to a single global platform. We completed the migration of the US platform in 2018, and in 2019 we are looking to extend this to Germany and the Netherlands, and begin work on the UK.

Our technology approach embraces agile ways of working, leading to greater cross-team collaboration and continuous deployment on a daily basis. We use modern technology and coding languages, such as Clojure and Kafka, to deliver cutting-edge solutions for customers.

The sophistication of our technology helps us attract and retain the brightest and best technology candidates. We therefore benefit from an exceptional team of software and data engineers who have a deep understanding of the lending business and customer needs. As of 31 December 2018, the Technology team (including contractors) accounted for nearly 30% of our global workforce.

We also apply our technological talent to how we use data to better inform credit risk decisions.

Over the past eight years we've built rich proprietary data sets on borrowers and borrower performance, based on both internally generated and publicly available sources. We expect these data sets to be further enhanced by the new Open Banking and PSD2 regulations, which will enable increased sharing of banking data and easier access to new markets.

The Technology team makes up

**~30%**

of our global workforce

"The sophistication of our technology helps us attract and retain the brightest and best candidates."


# A virtuous circle that drives continuous improvement and competitive advantage

## Proprietary data

Over the past eight years, we've accumulated proprietary data sets across our various geographies, which we've continuously used to enhance our credit scoring models and improve the borrower experience.

## Increased speed of funding

By attracting more investors to the platform, we're able to increase the speed with which we provide funding to SMEs, which is a core value driver for borrowers.

## Improving risk model

As we accumulate more data through applications and loan performance, we're able to improve the precision of our risk models, which leads to higher acceptance rates and lower pricing for borrowers.

## Higher loan conversion rate

This, in turn, results in higher conversion rates of borrower applications to loans, enabling us to serve a broader population of SMEs and reduce marketing and processing costs per loan. We're also able to further reduce costs to borrowers and therefore attract more SMEs to the platform, reinforcing the positive data accumulation cycle.

# Made to do more

Our team consists of a talented group of Circlers who have a strong alignment with our mission and share the same drive and passion as our customers; they are "made to do more".

## At a glance

- 1,074 Circlers globally, 217 new employees in 2018 (25% growth YoY).
- 83% would recommend Funding Circle as a place to work (December 2018).
- 92% CEO approval on Glassdoor (December 2018).
- Funding Circle UK was named as the 16th Best Company to Work For in The Sunday Times' 2018 annual survey.

### Overview – our people

The dedication and passion everyone brings to Funding Circle across each of our locations bring our mission to life. Just like our customers, our people embody the "made to do more" spirit.

Fostering and strengthening our culture is fundamental to our success. We are proud of our mission-driven, values-based culture. Our values are embedded within everything we do as a business, and we work hard to ensure we create the right environment for Circlers to thrive and feel fully connected to our Company goals. We strongly believe that building and sustaining our unique culture is critical to attracting, developing and retaining the best and most diverse talent. All Circlers are also owners in the business, through our employee equity scheme, and will continue to be as we grow.

"At Funding Circle, our people are our business."


## Building and embedding our culture

Each Tuesday, everyone in the Company takes 30 minutes out of their day to participate in the weekly Global Gathering. When the Company first started, the meeting was an effective way to share important updates across different teams. Today, the Gathering is much bigger, co-ordinated across all five office locations at the same time, and led by our CEO and Leadership Team. New Circlers are introduced by their buddies and a weekly Mission and Values award is presented in each office to an individual who has lived the values through their work and contributions.

At the end of each quarter, a longer Gathering (the "quarterly") is held over two to three hours where we reflect on progress made and look ahead to the coming months. We believe it is fundamentally important to our business to communicate and share information with each other through these forums. It is also important to us that everyone has the opportunity to hear and understand the strategic direction of the business, the journey (including the highs and the lows), and of course that they get to hear this from senior management and our founders.

## Measuring our progress

We also use these forums to share the results from our culture survey and to update on the progress and initiatives we undertake to strengthen our culture. Funding Circle runs a global, quarterly culture survey across all businesses and functions to track employee engagement and satisfaction. The results are reviewed by the Global Leadership Team, and help shape and drive actions to improve life at Funding Circle. Each manager is also provided with access to an online tool for their own results and encouraged to discuss them amongst their teams. This is done through a variety of town halls and team-specific forums, which are run at a local level, and globally for teams which are dispersed geographically. This helps foster a strong feedback culture at the Company, where everyone has a voice. This is reflected in our culture survey results, with 83% of Circlers recommending Funding Circle as a place to work and 86% stating they are proud to work here.

Our culture is championed by "culture committees" across each location of our business. These committees are Circler led and supported by a member of senior management.

The Company also has a variety of other clubs, social networks, support groups and committees, which add to the richness of life at the Company.

Our values play a key role in how we work at Funding Circle. Our entire recruitment approach and performance management process is values based and globally aligned. Individuals are also able to provide 360 feedback to peers and management.

**Read more about our values on page 26**

## Going further

As a FinTech organisation, we believe in developing new and innovative ways of doing things, and we are committed to helping our team develop the skills they need to be successful. In 2017, we launched FC Academy, a peer-to-peer learning network where Circlers design and deliver learning content to each other. This has been hugely successful across all locations with almost 3,000 registrations and over 200 courses delivered. The Global Leadership Team has delivered courses ranging from "leading in a competitive environment" to "how to do a start-up" (delivered by our CEO).

During 2018, we launched Learning Circle, our global online learning platform which gives each Circler access to a large learning library to support their personal development. Learning Circle also allows teams to develop their own content to ensure it is relevant and personalised to their team's needs and requirements.

We also recognise our team may wish to develop skills that are outside of their current role or immediate team's need. "Money to do more" is a development allowance each Circler can access, in order for them to pursue and develop particular skills. This can be done individually or collectively as a team.

Throughout the year, we invite customers into our offices to share their journeys, so our team can share in their real-life learning experiences. The Company also operates "Bright Ideas" days, where a Circler can take up to two paid days out of the office each year to work on a new idea or project for the Company.

# Our values

Each Funding Circle office is unique and brings with it flavours of the local culture, and at the same time each and every office is exactly the same, with our values at the heart of everything our business does.

| | |
|---|---|
| THINK SMART | Challenge assumptions, seek insights and make informed decisions. Everyone has a voice, so be ambitious. |
| MAKE IT HAPPEN | Be courageous and take ownership. Take small steps fast and commit to seeing it through. |
| BE OPEN | Treat everybody with respect and be honest with each other. Transparency and integrity build trust. |
| STAND TOGETHER | Listen, understand and support each other. Win or lose as one. |
| LIVE THE ADVENTURE | Bring your passion with you every morning and have fun. |

## Creating a diverse and inclusive environment for everyone

At Funding Circle, we recognise the power and value in building a diverse team, where people's skills and personalities complement each other and reflect the customers we are here to help. It is therefore fundamental we continue to do everything we can to create an environment where Circlers from all backgrounds feel supported and can give their best.

Our culture survey tells us that people feel this is the case, with 85% saying they believe everyone has an equal opportunity to succeed.

To support and foster an inclusive working environment, in 2018 we successfully established and launched a mentoring programme, which pairs up senior management with junior Circlers from different parts of the business, to provide advice and professional support on an informal basis. There are also a number of other diversity and support groups across the Company, many of which are employee led. These include FC Allies (LGBT), FC Impact (volunteering and charity works, discussed on page 28) and our aforementioned Culture teams. These groups of volunteers from each part of our business come together to help shape and cultivate the Funding Circle culture.

"Stand Together" is one of the core values of our organisation. At its heart, this means creating an inclusive culture, free from discrimination of any kind. Funding Circle is committed to providing equal opportunities to all Circlers, irrespective of age, disability, gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex or sexual orientation.

Our policy for the employment of disabled persons is to provide equal opportunities with other Circlers to develop skills and secure roles relevant for them and their career ambitions. This includes making reasonable adjustments to the workplace to support this. Our recruitment process (outlined below) ensures all applications, including those from disabled persons, are treated equally and fairly.

## Hiring the FC Way

Launched in 2018, Hiring the FC Way is Funding Circle's standard for recruitment. This global process specifies certain requirements for every hiring process, and helps us ensure a fair and objective experience for all candidates, free from bias. For example, every interview panel must include at least one female, and we aim to have at least one female on our interview shortlists. We also no longer ask for current compensation during the interview process.

## Diversity training

All of our managers globally undertook diversity, anti-harassment and unconscious bias training in 2017 and 2018. This training is now being rolled out to all Circlers, and we are planning to deliver further diversity training programmes throughout 2019.

## Gender diversity

More needs to be done to significantly improve gender diversity across the sector in which we operate, especially at senior levels. As a "FinTech" company, we operate across two traditional industries, financial services and technology, which have historically experienced low levels of gender diversity. Analysis of our business and external talent pipelines during 2018 has allowed us to develop a greater understanding of where the biggest challenges lie, notably within our Engineering and Capital Markets teams. This remains our biggest focus and is the prevailing challenge for our industry.

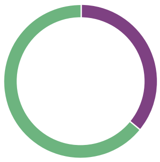
We now regularly report on gender diversity through our management information. We believe education and awareness of gender diversity across the business is an important aspect to moving the dial. Gender diversity is considered an important management KPI for our business.

## Women@FC

Established in early 2015 in the US and 2018 in the UK, Women@FC is a mixed-gender group of Circlers that focuses on gender diversity through three pillars: awareness, community and development. Women@FC founded Women in FinTech (US) and FinTech Women (UK), an external arm to help women working in the FinTech sector expand their professional network and accelerate their career development. In the UK, Funding Circle has signed up to the Government's "Women in Finance Charter" which is a commitment to support the progression of women into senior roles in the financial services sector.

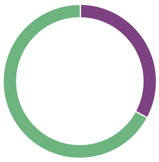
## Gender breakdown

### Gender breakdown Overall



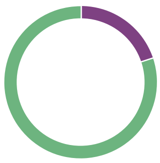
| | |
|---|---|
| Female | 390 / 36% |
| Male | 684 / 64% |

### Gender breakdown Global Leadership Team



| | |
|---|---|
| Female | 4 / 33% |
| Male | 8 / 67% |

### Gender breakdown Group Board



| | |
|---|---|
| Female | 2 / 20% |
| Male | 8 / 80% |

As at 31 December 2018.

Read the UK's gender pay gap report on our corporate website: corporate.fundingcircle.com.

# Doing business responsibly

Funding Circle was founded as a response to poor behaviours and customer outcomes in traditional financial services. Doing business responsibly is therefore at the heart of everything we do.

We believe in building a better financial world, igniting opportunities for businesses and investors by providing better propositions for both. By improving competition in the market and reducing dependency on bank lending, Funding Circle is helping SMEs to boost their local economies and communities through much needed job creation.

## Maintaining high industry standards

Since the early days of the business, we have campaigned for effective and proportionate regulation of our sector, firstly in the UK and subsequently in all of our geographies. In August 2011, we formed (together with two other founding members) the Peer-to-Peer Finance Association, a self-regulatory platform lending association in the UK. We continued to campaign for regulation and in 2014 the FCA took over regulation of the sector and Funding Circle was given an interim permission. Funding Circle became fully authorised in May 2017.

This commitment to upholding the highest standards in our industry exists across all of our markets. In April 2016, we formed (together with two other founding members) the Marketplace Lending Association in the US, which is focused on promoting responsible business practices, developing the role of platform operators for the benefit of investors and small businesses alike, and sound public policy. Both Associations in the UK and US have adopted a platform lending code of conduct (or operating principles). We also co-authored and adopted the Small Business Borrowers' Bill of Rights, which identified the fundamental financing rights to protect SMEs from the more abusive practices that some credit providers have employed in the underserved SME lending market, and represented the first cross-sector consensus on responsible SME lending practices in the US. In the Netherlands we are part of the Nederland Crowdfunding Association and in 2018 we began work to create our own self-regulated platform lending association in Germany. Over the past 12 months we have built relationships in the European Union to influence the development of a pan-European regulatory framework.

We have also been appointed to governmental and regulatory panels, for example the FinTech Delivery Panel in the UK (HM Treasury appointee) and the FinTech Advisory Panel (Conference of State Bank Supervisors appointee) in the US.

## FC Impact

Many Circlers are passionate advocates and supporters of various charitable and non-profit organisations. "FC Impact", a volunteer group, enables people to contribute to causes that matter most to them:

- In the UK, Circlers are involved in a variety of activities, from participating in the Whitechapel Breakfast Challenge, to hosting Techie Tea Parties on behalf of Age UK.
- In the US, Circlers co-ordinated a raffle and quiz to raise funds for victims of the destructive 2018 Northern California wildfires, in addition to other volunteer and fundraising activities.
- In the Netherlands our company is participating in BNR's Spitbrekers, an initiative to find sustainable solutions to the Netherlands' car and traffic issues.
- In Germany, Circlers supported the Berlin charity Strassen Kinder by collecting warm winter clothes for underprivileged children and their families.

Funding Circle is also an active member of the tech community. In 2018, we became a member of the Clojure development community and regularly host best practice events. Our Engineering teams ran an open-sourced project on the Clojure Jackdaw library and hosted ClojureBridge, a free workshop teaching the Clojure programming language, for those who identify as women, transgender women and non-binary.

## Environmental awareness

As an organisation, Funding Circle is committed to doing business in a sustainable manner and combating the effects of climate change. Within our business, the primary drivers of our natural resource consumption are our physical locations and work environment, our technology infrastructure and global travel. It is our policy to ensure our office locations are as environmentally friendly as possible. Examples of this include lighting with automatic shut-off to reduce our carbon footprint and full recycling and waste separation facilities at all locations. While we support and encourage mobility between our offices, we ensure this is done in a controlled manner and is governed by a global mobility policy. Finally, as a technology platform, we continually seek to drive efficiency through automation and digitisation. This not only drives a better experience for our customers, but also helps us reduce our consumption of natural resources such as paper and our overall energy consumption.

The Group has presented the greenhouse gas ("GHG") disclosures for the first time for the year ended 31 December 2018 as required by the Companies Act.

The calculation of these disclosures has been performed using the UK Government's conversion factor guidance in relation to 2018 in accordance with the Greenhouse Gas Protocol Corporate Standard.

The Group's operations that release scope 1 and scope 2 GHG primarily include the usage of gas and electricity at our leased offices. We do not select or control the provision of electricity. This is the first time that Funding Circle has reported on its GHG emissions and we are continuing to develop and enhance our data gathering capabilities.

We are required to show an intensity ratio and have determined that the most appropriate for our growing business is tonnes of $CO_2$ equivalent ("$tCO_2e$") per £m of revenue.

| | 2018 $tCO_2e$ |
|---|---|
| GHG emissions scope 1 (direct) | 154 |
| GHG emissions scope 2 (indirect) | 590 |
| Total gross emissions (scope 1 and 2) | 744 |
| Total revenue (£m) | 141.9 |
| Intensity ratio – $tCO_2e$ per £m of revenue | 5.24 |

## Human rights

Funding Circle does not have a specific human rights policy in place; however we respect and promote human rights through our employment policies and practices, and apply them equally to everyone who works at or is part of Funding Circle.

## Modern slavery

We have a zero tolerance approach to modern slavery and human trafficking and we are committed to ensuring that our business operates in a socially responsible way. We are committed to playing our part in helping the world to improve practices designed to combat slavery and human trafficking. We have published a Modern Slavery Act Transparency Statement in compliance with section 54 of the Act and this is available to view on our website.

## Code of Conduct

Funding Circle is dedicated to implementing and maintaining the highest standards of behaviour, ethics and integrity among its workforce, and to creating a culture where adherence to these standards is recognised and rewarded. We are developing a Code of Conduct that outlines these standards and which addresses subjects such as integrity, conflicts of interest and ensuring our staff bring their passion to work and maintain the fun, positive working environment that exists at Funding Circle. The Code of Conduct will support our company mission and will complement the company values against which each employee's performance is appraised. It will provide guidance as to what conduct we should expect of each other and how we should interact with others.

## Anti-corruption and anti-bribery

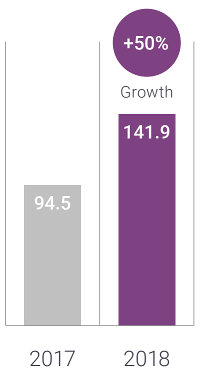
We recognise that our reputation for integrity and trustworthiness is critical to our success. Funding Circle upholds all laws relevant to countering bribery and corruption in each jurisdiction where it operates. The Funding Circle Anti-Bribery and Corruption Policy outlines the management of bribery risk at Funding Circle. Employees are trained and tested annually on bribery and corruption risks that may arise in the course of their employment at Funding Circle, and on financial crime more generally.

# How we measure our performance

## Financial

### Revenue
(£m)

**£141.9m**

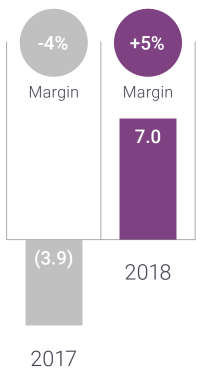



#### Definition
The Group generates revenues from two principal revenue streams: transaction fees, being the fees earned from originating loans with borrowers; and servicing fees, being the fees earned from servicing of the loans under management for the investors.

#### Link to strategy
1 3 4

### Segment adjusted EBITDA
(£m)

**£7.0m**




#### Definition
Segment adjusted EBITDA is defined as adjusted EBITDA before central costs, which include product development and corporate costs. This is the principal profit measure used by the Directors in assessing financial performance in the Group's three geographical segments.

#### Link to strategy
1 3 4

### Adjusted EBITDA
(£m)

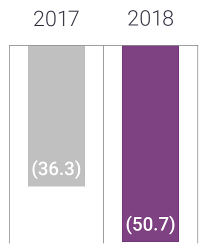
**£(28.5)m**


#### Definition
Adjusted EBITDA represents the operating profit/loss before depreciation and amortisation, share-based payments and associated social security costs, foreign exchange gains/(losses) and exceptional items.

#### Link to strategy
2 4

### Loss before tax
(£m)

**£(50.7)m**

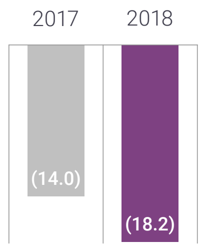



#### Definition
Loss before tax is defined as revenue after taking into account all operating expenses and finance income.

#### Link to strategy
4

### Earnings/(loss) per share
(pence)

**(18.2)p**




#### Definition
Earnings/(loss) per share is defined as the earnings/(loss) for the year attributable to ordinary equity holders of the Parent Company divided by the weighted average number of ordinary shares in issue during the year.

#### Link to strategy
4

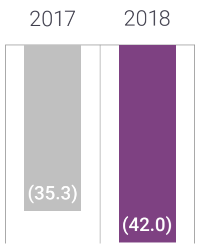
## Focus areas relevant to our KPIs

1 Driving a better borrower experience
2 Investing in modern data, tech and analytics
3 Diversifying funding sources
4 Building a highly scalable global business

Operational

### Free cash flow
(£m)

**£(42.0)m**

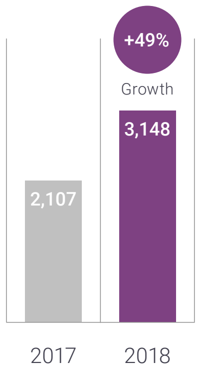



#### Definition
Free cash flow represents the sum of the net cash outflows from operating and investing activities. The Directors view this as a key liquidity measure and is the net amount of cash used to operate and develop the Group's platform each year.

#### Link to strategy
4

### Loans under management
(£m)

**£3,148m**

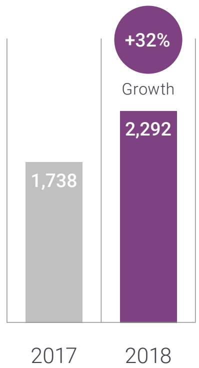



#### Definition
This represents the total value of outstanding principal and interest to borrowers. It includes amounts that are overdue but excludes loans that have defaulted.

#### Link to strategy
1 2 3 4

### Originations
(£m)

**£2,292m**

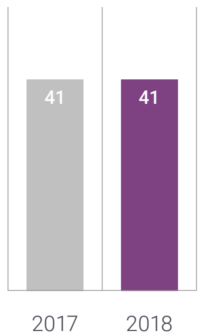



#### Definition
This represents the monetary value of loans originated through the Group's platform in any given year. This is a key driver of both transaction revenue and future expected servicing fees and loans under management.

#### Link to strategy
1 2 3 4

### Marketing costs as a % of revenue

**41%**




#### Definition
This represents the total cost of third-party marketing expenditure in any particular year divided by the revenue earned in that year.

#### Link to strategy
1 4

# Our results

## A segment profit was recorded at a Group level for the first time with profitability in all three geographic segments improving year-on-year.

In 2018, the Group saw loans under management growth of 55% and origination growth of 40%, excluding property.

| | Loans under Management | | | Originations | | |
|---|---|---|---|---|---|---|
| | 2018 £m | 2017 £m | Change | 2018 £m | 2017 £m | Change |
| United Kingdom | 2,183 | 1,489 | 47% | 1,525 | 1,157 | 32% |
| United States | 736 | 427 | 72% | 596 | 396 | 51% |
| Developing Markets | 204 | 96 | 125% | 165 | 78 | 118% |
| Total (excl. property) | 3,123 | 2,012 | 55% | 2,286 | 1,631 | 40% |
| Property (UK only)[1] | 25 | 95 | (74%) | 6 | 107 | (94%) |
| Total | 3,148 | 2,107 | 49% | 2,292 | 1,738 | 32% |

1. In 2017, Funding Circle took the decision to cease lending to property developers in the UK, the one market in which it had previously expanded its product set beyond amortising SME loans. As a result, this is excluded when measuring ongoing business performance.

### United Kingdom

In Funding Circle's largest and most mature business unit, loans under management (excluding property) grew by 47% to £2,183 million and originations (excluding property) rose 32% to £1,525 million with nearly 40% of these originations from loans to existing customers. Together, this loan growth delivered revenue (excluding property) of £93.2 million, with 49% generated from existing customers (2017: 45%). Revenue growth of 43% in excess of origination growth of 32% reflected higher transaction revenue yield and servicing revenue growth aligned to the change in loans under management.

The funding for these loans continued to come from a diversified range of sources with c.40% from retail investors and the balance from institutions, supranational banks and Funding Circle Investment Fund ("FCIF"), the FTSE listed fund.

During the year, we also saw a £200 million uptake of our new Innovative Finance ISA product and secured a number of funding deals, including a £1 billion funding commitment from Waterfall Asset Management and an additional £150 million of funding from the British Business Bank. In addition, European government and supranational entities continued to play a valuable role supporting UK small businesses. The European Investment Fund and KfW, the German development bank, announced their investment in a securitisation of loans originated by Funding Circle in May.

### United States

In the US, loans under management ended the year at £736 million, an increase of 72% with originations in the year up to £596 million, a rise of 51%. This strong growth was achieved despite policy changes that resulted in a reduction in the amount of originations introduced by third-party referral partners and less originations from consolidation of existing loans by repeat borrowers. Revenue of £37.1 million rose 66% with the amount earned from existing customers increasing to 35% of revenue (2017: 28%). Servicing yield was slightly lower than in 2017 but transaction yields rose steadily through 2017 and again in 2018 as fewer, low transaction yield, loan consolidations were originated. The US represented 26% of the Group's total revenue in 2018 (2017: 24%).

Funding in the year was primarily from institutional investors and FCIF with a small contribution from accredited retail investors. In August 2018, we announced a significant funding deal with Alcentra, an alternative fixed income specialist for BNY Mellon Investment Management, which committed to purchase up to $1 billion in loans originated on the platform over a period of up to three years.

Since the start of 2019, we have confirmed a new partnership with the payments infrastructure company Stripe, helping connect even more US business owners with the affordable capital they need to go further.

## Developing Markets

The Developing Markets' businesses of Germany and the Netherlands are in their third full year of operation, lagging the US by approximately two to three years in terms of maturity. Both countries delivered significant year-on-year growth, with increases in both loans under management and originations of over 100%. Revenue almost trebled in the year to £11.2 million, including other revenue of £2.6 million (2017: £0.3 million), and contributed 8% to Group revenues, twice that of the previous year.

Retail investors funded c.20% of Developing Markets originations with the rest from institutions, supranational banks and FCIF.

## Segment results and adjusted EBITDA

### i) Revenue

In 2018, revenue grew 50% to £141.9 million (2017: £94.5 million) and 55% to £141.5 million when property revenue is excluded.

| | 2018 £m | 2017 £m | Change |
|---|---|---|---|
| United Kingdom | 93.2 | 65.3 | 43% |
| United States | 37.1 | 22.3 | 66% |
| Developing Markets | 11.2 | 3.8 | 195% |
| Total (excl. property) | 141.5 | 91.4 | 55% |
| Property (UK only) | 0.4 | 3.1 | (87%) |
| Total | 141.9 | 94.5 | 50% |

Revenue is mainly a function of transaction fees earned on originations and servicing income earned from servicing the loans under management.

The growth in revenue within each geography reflected a combination of price increases, increase in originations and changes in the mix of originated loans on which different fees are charged depending on the length of loan and risk bands, as well as the growth in servicing fees for loans under management.

### ii) Segment adjusted EBITDA

The Group uses segment adjusted EBITDA ("segment results") as an alternative profit measure to manage the segments as this removes the impact of items that are not controllable at a segment level including the centralised product development and corporate costs as well as the depreciation and amortisation which arise principally on previously capitalised development spend.

For the first time, the Group was profitable at the geographic segment level, recording a segment adjusted EBITDA of £7.0 million (2017: loss of £3.9 million) and margin of 5% (2017: loss of 4%).

| | 2018 £m | 2017 £m | Change |
|---|---|---|---|
| United Kingdom | 21.8 | 16.9 | 29% |
| United States | (7.4) | (10.9) | 32% |
| Developing Markets | (7.4) | (9.9) | 25% |
| Segment adjusted EBITDA | 7.0 | (3.9) | 279% |

#### United Kingdom

Segment adjusted EBITDA increased 29% year-on-year. A segment margin of 23% was slightly lower than the prior year 25% following a 3% point increase in marketing spend as a percentage of revenue related to investment in above-the-line marketing activities. Revenue from new borrowers returned a negative 16% segment margin, due to the inclusion of most of the increased marketing spend being attributable to new borrowers. This compared to a positive 64% in respect of revenue from existing customers, which accounted for nearly half of total revenue in 2018, where marketing expenditure is limited.

#### United States

Segment losses narrowed to £7.4 million from £10.9 million in 2017, an improvement in segment loss margin from 49% to 20%. This reflected cost growth of only 34% compared to revenue growth of 66% as the business demonstrated operational leverage as it scaled in the year. The segment margin on new borrower revenue was negative 48% reflecting the relatively high cost of direct marketing as the business matures, but the segment margin on existing revenue was positive 32% reflecting the higher margin servicing revenue.

## Segment results and adjusted EBITDA continued

### ii) Segment adjusted EBITDA continued

**Developing Markets**

A segment loss of £7.4 million in 2018 was 25% lower than in 2017 with the segment loss margin improving significantly to 66% (2017: 261%). This reflected the business growing significantly in scale and spreading its fixed cost base across a much larger volume of loan originations as well as generating increasing servicing revenue on a growing base of loans under management.

### iii) Adjusted EBITDA

| | 2018 £m | 2017 £m | Change |
|---|---|---|---|
| Segment adjusted EBITDA | 7.0 | (3.9) | 279% |
| Product development | (24.5) | (13.6) | (80%) |
| Corporate costs | (11.0) | (7.6) | (45%) |
| Adjusted EBITDA | (28.5) | (25.1) | (14%) |
| Depreciation and amortisation | (8.2) | (6.8) | (21%) |
| Share-based payments | (8.6) | (4.4) | (95%) |
| Foreign exchange loss | (0.4) | (0.6) | 33% |
| Exceptional items | (5.9) | — | n/m |
| Operating loss | (51.6) | (36.9) | (39%) |
| Finance income | 0.9 | 0.6 | 50% |
| Income tax | 1.4 | 1.0 | 40% |
| Loss for the year | (49.3) | (35.3) | (40%) |
| Loss per share | (18.2p) | (14.0p) | (30%) |

**Product development costs** of £24.5 million (2017: £13.6 million) relate to the people and overhead costs of running and maintaining the Group's IT platforms and the ongoing investment in the business and is stated after development costs are capitalised onto the balance sheet as intangible fixed assets.

The growth in **corporate costs** from £7.6 million to £11.0 million included additional costs of operating as a listed company following the IPO.

**Share-based payment costs** of £8.6 million (2017: £4.4 million) shown within people costs include the associated social security costs of £3.6 million (2017: £nil). During 2018, as Funding Circle neared IPO, the share awards were determined to be readily convertible assets and the Group was required to withhold and pay employment taxes to the tax authorities on the exercise of options.

**Exceptional items** include the sponsor and adviser costs associated with the IPO. The total costs associated with the IPO were £15.0 million of which £5.9 million has been expensed to the income statement with the remainder offset against share premium as is required for costs directly associated with the primary offering.

**Operating loss** grew to £51.6 million (2017: £36.9 million) with the operating loss margin reducing to 36% compared with 39% in 2017.

The Group received a research and development **tax credit** of £1.4 million (2017: £1.0 million) but remains non-corporate tax paying given the losses incurred to date.

The **loss per share** was 18.2 pence (2017: loss per share of 14.0 pence) based on a weighted average number of ordinary shares in issue of 271.3 million (2017: 251.9 million).

## Profit and loss

| | 2018 £m | 2017 £m | Change |
|---|---|---|---|
| **Revenue** | | | |
| Transaction revenue | 112.9 | 76.5 | 48% |
| Servicing revenue | 24.9 | 17.1 | 46% |
| Other revenue | 4.1 | 0.9 | n/m |
| | 141.9 | 94.5 | 50% |
| **Operating expenses** | | | |
| People costs (including contractors) | (79.2) | (52.3) | (51%) |
| Marketing | (57.8) | (38.7) | (49%) |
| Data and technology | (9.2) | (6.5) | (42%) |
| Property-related costs | (8.9) | (6.8) | (31%) |
| Depreciation and amortisation | (8.2) | (6.8) | (21%) |
| Other costs | (24.3) | (20.3) | (20%) |
| Exceptional items | (5.9) | — | n/m |
| | (193.5) | (131.4) | (47%) |
| Operating loss | (51.6) | (36.9) | (40%) |

## Revenue

Transaction revenue grew 48% to £112.9 million driven by origination increases of 40% and a 12% increase in transaction yields to 4.93% (2017: 4.40%) following price rises.

Servicing revenue, which is a function of loans under management, grew 46% to £24.9 million. Loans under management (excl. property) increased by 55% to £3,123 million although the servicing yield reduced marginally to 0.94% (2017: 0.98%).

Other revenue of £4.1 million (2017: £0.9 million) arose predominantly from excess premium earned on financial guarantees given on past Developing Markets funding.

## Operating expenses

Total operating costs increased during the year by 47% to £193.5 million (2017: £131.4 million) compared with growth in revenues (including property) of 50%. Excluding the exceptional items of £5.9 million and social security costs of £3.6 million that arose due to the IPO, operating expenses increased by 40%.

**People costs** represent the Group's largest proportion of expenditure. People cost increases during the year of 44% (£27.6 million) were principally driven by the 36% growth in average headcount and increases in the average cost per head, together with growth in share-based payments of £4.2 million.

| | 2018 £m | 2017 £m | Change |
|---|---|---|---|
| People costs | 90.0 | 62.4 | (44%) |
| Less capitalised development spend | (10.8) | (10.1) | (7%) |
| People costs net of capitalised development spend | 79.2 | 52.3 | (51%) |
| Average headcount (including contractors) | 1,004 | 739 | 36% |
| Year-end headcount (including contractors) | 1,074 | 857 | 25% |

**Marketing overhead** spend in the year rose to £57.8 million (2017: £38.7 million) as the Group continued its strategy of investing significantly in a diversified range of media channels to drive increased awareness of Funding Circle and grow originations. Overall Group spend remained at 41% of revenue (2017: 41%) as efficiencies and operational leverage were reinvested in above-the-line channels, mainly in the United Kingdom, including a new brand campaign in the autumn of 2018.

**Data and technology** costs consisting of software support, licences and data feed expenses grew by £2.7 million to £9.2 million driven primarily by headcount increases and growth in data consumption.

**Property-related costs** increased by £2.1 million to £8.9 million following the opening of a new office in Denver, a replacement office in Amsterdam and no longer subletting a proportion of the main UK office following growth in London headcount.

## Capital reorganisation

Prior to the IPO, the Group undertook a capital reduction in order to eliminate its deficit on distributable reserves. It then converted the different classes of ordinary and preferred shares into one class of ordinary shares. Further details are provided in note 18.

## Funding and liquidity

At 31 December 2018, the Group held cash and cash equivalents of £333 million, significantly increased from 2017 following the net funds of £285 million raised through the Group's IPO. The Group maintains the majority of its cash in the UK with 95% of the Group's cash denominated in pounds sterling.

| | 2018 £m | 2017 £m |
|---|---|---|
| Cash generated from operations | (29.9) | (23.6) |
| Tax received | 1.4 | 1.0 |
| Net cash outflow from operations | (28.5) | (22.6) |
| Net cash outflow from investing activities | (13.5) | (12.7) |
| Free cash flow | (42.0) | (35.3) |
| Net cash inflow from financing activities | 285.6 | 81.9 |
| Effect of foreign exchange | 0.5 | (1.0) |
| Movement in year | 244.1 | 45.6 |
| Cash and cash equivalents at the beginning of the year | 88.9 | 43.3 |
| Cash and cash equivalents at the end of the year | 333.0 | 88.9 |

Cash outflow generated from operations was £29.9 million reflecting the adjusted EBITDA loss of £28.5 million and net working capital outflows.

**Net cash generated from operating and investing activities** is defined by the Group as "free cash flow". This is a key liquidity measure and is the net amount of cash used to operate and develop the Group's platform each year. In 2018 this was a £42.0 million outflow (2017: £35.3 million outflow).

The Group continued to invest in technology during the year with £10.8 million (2017: £10.1 million) spent on internal software engineers developing intangible fixed assets, £2.3 million on office refurbishment and improvement and £0.2 million on non cloud-based software.

Interest earned on the Group's cash was £0.9 million (2017: £0.6 million) following increased funds from the IPO.

**Net cash flows from financing activities** of £285.6 million for the year ended 31 December 2018 related to funds raised though the IPO of £300.0 million, less sponsor and professional adviser fees totalling £15.0 million.

Additionally the Group paid the £0.5 million dividend on the Series A preference shares which was triggered by the completion of the IPO.

## Adoption of IFRS 16

From 1 January 2019, the Group will adopt the new leasing standard, IFRS 16, retrospectively. The impact will be to recognise a right-of-use asset and a lease liability. The adoption, when applied, will result in an increase to adjusted EBITDA of £5.1 million for 2018 with an increase in depreciation of £4.3 million.

## Subsequent events

There have been no subsequent events since the balance sheet date.

## Outlook

In 2019, we expect to report revenues above £200 million with transaction yields remaining at 2018 exit levels, providing a year-on-year revenue benefit as lower average 2018 yields are lapped. Segment adjusted EBITDA margin (including costs associated with organic expansion into Canada) will more than double with marketing spend as a percentage of revenue remaining broadly flat year-on-year.

Adjusted EBITDA losses will reduce from 2018 as a result of central costs falling to 20%+ of revenue, including investment in product development and a full year of plc related expenditure. Capitalised development spend, recorded as intangible fixed assets, will grow modestly.

This guidance is pre-new investor products and IFRS16. We expect additional incremental impact from new investor products and IFRS16 in 2019. New investor products are expected to add c.£2–3 million to both revenue and adjusted EBITDA in 2019, and IFRS16 is expected to add a further c.£5 million to both segment adjusted EBITDA and adjusted EBITDA, but minimal impact on loss before tax.

# Growing a global scalable and sustainable business

Risk management sits at the heart of our business. We recognise that effective management of all key risks is critical to meet our strategic objectives and to achieve sustainable long-term growth. Every business faces risks. These need to be identified, understood and appropriately addressed to protect the Company, our customers and fellow Circlers.

At Funding Circle, our approach is for all employees, regardless of their position, to play their part in managing risk within the business. Our Enterprise Risk Management Framework ("ERMF") defines a common approach to risk management, with clear roles and responsibilities, and provides the foundations for a strong risk culture and control environment.

We have adopted best practices in corporate governance and risk management, appropriate to the size, nature and complexity of our business. We annually review our risk strategy and risk appetite framework across the Company to continually adapt our practices to the evolving profile of our business.

## Risk appetite

Our risk appetite is defined as the level of risk that we, as the Company, are prepared to accept whilst pursuing our core business strategy, recognising a range of possible outcomes as business plans are implemented. The Funding Circle Holdings plc Board sets the risk appetite and reviews the Company risk profile against risk appetite. Risk appetite provides a guideline for shaping business strategies and defining the level of controls needed. It also provides a basis for ongoing dialogue between management and the Board with respect to Funding Circle's current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis.

## Risk governance

Funding Circle has a risk governance framework that is documented in the ERMF. Responsibility for defining and approving the ERMF lies with the Funding Circle Holdings plc Board. The risk governance framework includes delegations of authority from the Group Board, the UK Board and Principal Risk Committees as appropriate.

We operate a Three Lines of Defence model across all markets in which we operate. Our Chief Risk Officer ("CRO"), Jerome Le Luel, leads the Group Risk function, which is independent from Funding Circle's operational and commercial functions. He is responsible for developing, maintaining and implementing the ERMF. He is also responsible for providing assurance to the Board and Directors that the principal risks are appropriately managed and that Funding Circle is operating within risk appetite.

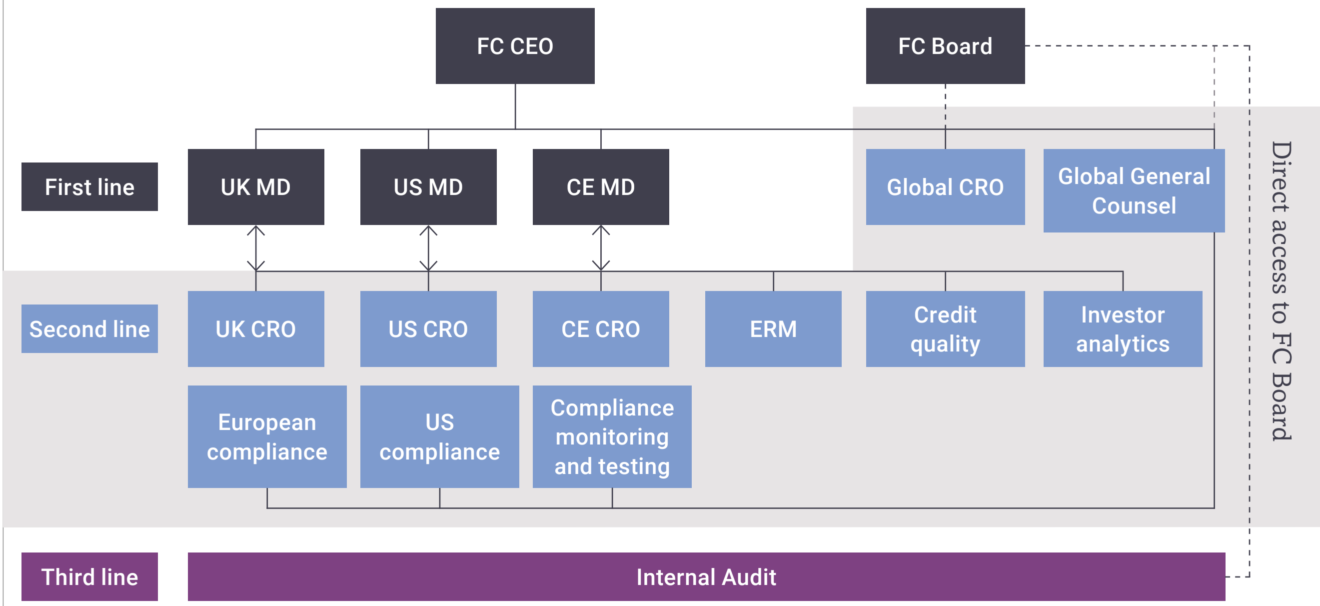
We have identified four principal risks:

- strategic risk;
- credit risk;
- operational risk; and
- reputation and conduct risk.

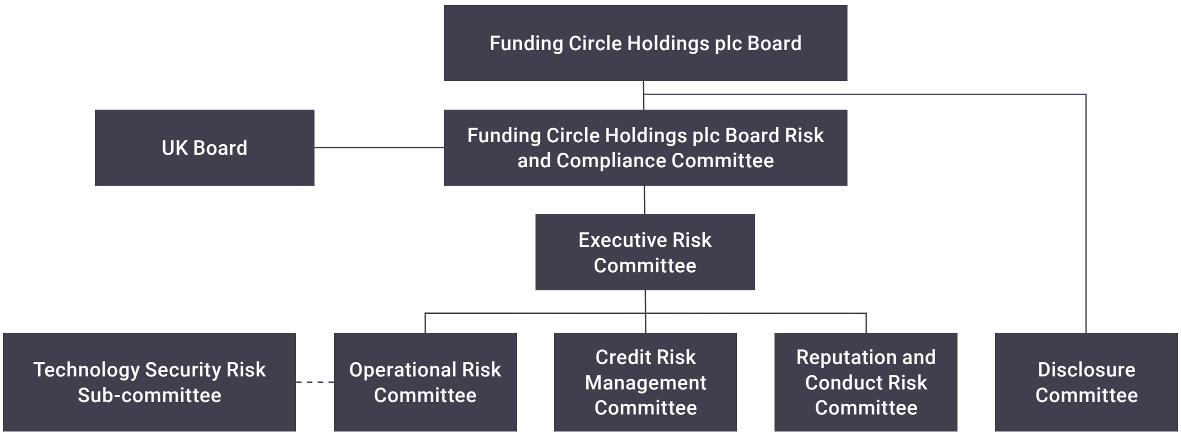
These four principal risks represent a detailed taxonomy of key risks.

Funding Circle's Three Lines of Defence model and risk governance structure have been designed to manage these four principal risks in a consistent manner across the Company, as set out below.

## Three Lines of Defence




## Risk governance structure




The Board's Risk and Compliance Committee is supported by the Executive Risk Committee ("ERC") comprising the Funding Circle Global Leadership Team. The ERC has sub-committees focused on each principal risk, as set out below.

### Executive Risk Committee

The Executive Risk Committee meets on a quarterly basis and reviews all principal risks across the Group. Strategic risks are directly supervised and managed by the leadership team of each Business Unit and reviewed at the Executive Risk Committee.

### Credit Risk Management Committee

Credit Risk Management Committees are held monthly in each Business Unit. They focus on ensuring that the credit risk exposure of each Business Unit is adequately managed.

### Reputation and Conduct Risk Committee

The Reputation and Conduct Risk Committee focuses on the management of regulatory, reputation and conduct risks and also oversees new product approvals.

### Operational Risk Committee

The focus of the Operational Risk Committee is to ensure that operational controls are effective and that operational and financial crime risks are adequately managed in each Business Unit.

### Disclosure Committee

The Board has delegated to the Disclosure Committee responsibility for overseeing the disclosure of information by Funding Circle to meet its obligations under the Market Abuse Regulations, the FCA's Listing Rules and Disclosure and Transparency Rules.

# Risk management continued

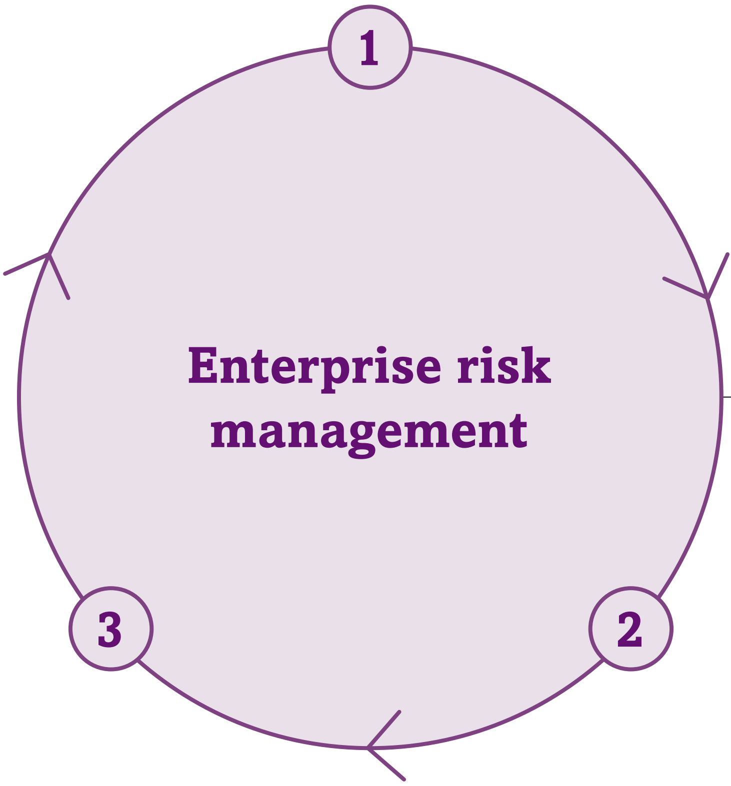
## Risk culture

At Funding Circle, we believe that an open and strong risk culture encourages ethical behaviour and professional conduct. We promote our risk culture as part of our ongoing effort to reinforce our Company values and have a Group-wide programme of "Doing the Right Thing" every day for our customers, employees and community.

## Risk assessment framework

A standard risk assessment framework is used to evaluate risks at both the Business Unit and Group levels, enabling consistent measurement. Risk assessments are carried out by those individuals, teams and departments that are best placed to identify and assess the potential risks. They are supported in this process by our Risk and Compliance teams.

We typically follow the evaluate/respond/monitor methodology:




**1. Evaluate**
- Identify key risks
- Set risk appetite
- Assess adequacy of existing controls
- Estimate residual risk

**2. Respond**
- Design control improvement plans
- Prioritise remediation work and assign responsibilities

**3. Monitor**
- Track business performance vs risk appetite
- Report, analyse and escalate risk incidents
- Identify new/emerging risks
- Track delivery of agreed control improvements

### Evaluate

As part of its responsibilities under the ERMF the Board has formally recognised a series of risks that are continuously present in Funding Circle and can materially affect the achievement of Funding Circle's objectives. These risks have been organised under a consistent and simple taxonomy with a hierarchy of risk categories, which facilitates risk management and oversight. The management of these risks is assigned to clear business owners who formally assess on a regular basis the level of these risks, the adequacy of controls and the need for further mitigations.

### Respond

The appropriate risk response ensures that risks are kept within appetite. At Funding Circle we see four types of possible risk responses:

- accept the risk;
- take mitigation actions (such as additional risk controls) to reduce the risk;
- stop the existing activity/do not start the proposed activity to remove the risk; or
- continue the activity and lay off the risk to another party (e.g. insurance).

### Monitor

Monitoring and reporting on Funding Circle's risk exposures are undertaken through risk governance structures. The Board Risk and Compliance Committee ("RCC") receives a consolidated risk report no less than three times a year detailing the risks facing the Group and mitigation plans, as well as risk outlook. The RCC is also provided with metrics and regular reports about the activities of the Risk and Compliance functions.

## Risk assurance

Assurance on the management of risk is provided by the Three Lines of Defence model and the Funding Circle Internal Audit function. We also execute external annual controls assurance (e.g. United Kingdom ISAE3402 and United States SOC1 Type 2) reports certified by auditors in various geographies in which we operate.

# Principal risks and uncertainties

as at 31 December 2018

The Board confirms that through 2018 a robust assessment of the principal risks facing Funding Circle was completed. A comprehensive list of Group-wide risks and emerging risks was reviewed and monitored throughout the year. The most significant risks and uncertainties faced by Funding Circle are listed in the table below, categorised by principal risk:

## Strategic risk

**Strategic risk is defined as the failure to build a sustainable, diversified and profitable business that can successfully adapt to environment changes due to the inefficient use of Funding Circle's available resources.**

| KEY RISKS | MANAGEMENT OF RISK | CHANGE IN RISK IN YEAR |
|---|---|---|
| **Marketplace funding**<br>Investor funding shortfall or failure to maintain a diversified investor base may impact Funding Circle's operations and ability to originate new loans.<br>The ability to attract investors and secure sufficient funding from existing or new investors depends on, among other things:<br>- Funding Circle's ability to continue to provide attractive investor returns;<br>- compliance with the terms and conditions of funding agreements with investors; and<br>- effective maintenance and scaling of financial and risk management and compliance controls and procedures. | Funding Circle's business model is to be a direct lending platform that matches the supply of capital to the demands of SME borrowers more efficiently and sustainably than banks.<br>We carefully manage the match between capital supply and SME loan demand by:<br>- considering a broad range of management information and key performance indicators at Funding Circle's Liquidity Risk Forum, Executive Risk Committee and Board;<br>- maintaining a strong forward-looking pipeline of potential investors;<br>- having a seasoned Capital Markets team responsible for structuring transactions; and<br>- managing concentration risk and diversifying sources of funding. | →<br>We have continued to diversify our funding sources from investors, across institutional, retail, government and Funding Circle managed funds.<br>We have also expanded our marketplace funding strategy into private funds – to help support the growth of our business through economic cycles. We plan to use a portion of our equity to seed new Funding Circle funds. This will be done within strict guardrails agreed with the Board and monitored thereafter.<br>We have reorganised our Capital Markets team into dedicated Sales and Structuring teams. This will allow the relevant teams to focus on investor origination and deal execution. We will open a dedicated institutional sales office in New York to build stronger investor relationships with US credit investors. |

# Principal risks and uncertainties continued

as at 31 December 2018

## Strategic risk continued

**Strategic risk is defined as the failure to build a sustainable, diversified and profitable business that can successfully adapt to environment changes due to the inefficient use of Funding Circle's available resources.**

| KEY RISKS | MANAGEMENT OF RISK | CHANGE IN RISK IN YEAR |
|---|---|---|
| **Economic environment**<br>Financial risk that is associated with macroeconomic or political factors that may affect Funding Circle's financial and/or credit performance. | We continually monitor the credit health of the loan portfolios under management and perform stress test simulations to help ensure that returns would remain resilient in the context of risk volatility. Latest stress test simulations suggest that investors' returns would remain positive in every geography where we operate even under severe economic conditions.<br>Key management actions include (but are not limited to):<br>- annual stress testing of loan portfolios in each market and independent review by external party;<br>- resilient pricing and credit strategy;<br>- monthly monitoring of internal and external signals as part of the Credit Risk Management Committee;<br>- independent validation and continuous monitoring of the performance of risk models;<br>- continuous tuning of risk and pricing parameters to correct for possible deviations in returns;<br>- agile capability to rapidly deploy pricing and credit strategy adjustments deemed necessary; and<br>- in-house experienced collections and recoveries capabilities with built-in scalability. | ↗<br>There is a high level of uncertainty regarding the UK credit environment in the context of Brexit negotiations and the possible macroeconomic repercussions of the exit from the EU.<br>Relevant SME-related macroeconomic indicators remain stable but are trending negatively, e.g. individual insolvencies in the UK have been trending upwards over the past two years and Q3 2018 (seasonally adjusted) reached its highest level since Q1 2012, slightly above the historical average. Company insolvencies in the UK in Q3 2018 rose to the highest quarterly level since Q1 2014.<br>We are also noticing negative signals from recent business surveys in the UK. |

## Credit risk

**Credit risk is the risk of suffering financial loss should any borrower fail to fulfil their contractual repayment obligations. Since we typically have not lent from our own balance sheet, we are not directly exposed to credit risk. Credit risk performance does affect the returns received by our investors and the attractiveness of Funding Circle SME loans as an investment. Hence, credit of loans is managed on behalf of investors with the utmost care and attention to deliver credit performance in line with expectations.**

| KEY RISKS | MANAGEMENT OF RISK | CHANGE IN RISK IN YEAR |
|---|---|---|
| Portfolio risk management<br>Errors in borrower acquisition, credit approval, scoring models and credit risk management processes may result in increasing defaults and loss rates not aligned to investors' expectations. | Funding Circle's aim is for well-balanced loan portfolios that generate positive returns for investors through the economic cycle.<br>Our Chief Risk Officer is responsible for managing credit risk by:<br>- formulating credit risk policies (covering credit assessment and risk grading, portfolio monitoring and reporting, collections and recoveries) and ensuring adherence to these policies;<br>- recruiting, training and managing expert risk professionals with the adequate skills, objectives and capacity;<br>- establishing the formal mandates and authorisation structure for setting risk parameters and approving loans;<br>- performing independent quality control of credit decisions;<br>- limiting concentration risk to counterparties and industries;<br>- actively monitoring the performance of the loan portfolios and the market trends that could affect performance;<br>- implementing adequate procedures to control for model risk (including the independent validation and monitoring of credit scoring models); and<br>- performing annual stress tests with high quality standards. | →<br>Our fundamental approach to credit risk management remains unchanged.<br>We have fully embedded the operating principles of the Enterprise Risk Management Framework.<br>Our global Risk and Analytics team has grown in size with the addition of experienced risk professionals capable of supporting the increasing size and complexity of our operations.<br>We have kept strengthening the quality of our risk scorecards, leveraging larger and more mature data sets to develop refined models. In 2018 we have deployed in the US our fourth generation of risk scorecards, and in the UK the seventh generation.<br>We have deployed across all markets an automated collections workflow tool to enable systematic treatment of borrowers in arrears with greater productivity and scalability. |

# Principal risks and uncertainties continued

as at 31 December 2018

## Regulatory, reputation and conduct risk

**Regulatory, reputation and conduct risk is defined as engaging in activities that detract from Funding Circle's goal of being a trusted and reputable financial services company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure.**

| KEY RISKS | MANAGEMENT OF RISK | CHANGE IN RISK IN YEAR |
|---|---|---|
| **Regulatory risk**<br>The risk that Funding Circle's ability to effectively manage its regulatory relationships is compromised or diminished, that the Group's governance and controls framework is not satisfactory given business growth or that there is business interruption by reason of non-compliance with regulation or the introduction of business-impacting regulation. | We maintain vigilance as to proposed changes affecting our business and we engage with policy makers where relevant. We have continued to invest time and resources in external relations, including to educate policy makers, regulators and other influencers on the features, benefits and impact of platform lending.<br>We have expanded our teams focusing on governance and controls, and continue to train all employees in such matters as relevant to their role. | →<br>We consider that the external and regulatory environment is in a state of flux at present given a number of regulatory consultations ongoing in the markets in which Funding Circle operates and the uncertain political-economic landscape generally. |
| **Reputation/brand risk**<br>Operational or performance failures could lead to negative publicity that could adversely affect the Group's brand, business, results, operations, financial condition or prospects. | We continue to implement and maintain business practices and controls focused on reputation management, including:<br>- appraising employees against our core values and behaviours;<br>- ensuring Risk and Compliance Committee consideration of new or iterated products and initiatives;<br>- undertaking specific projects to address identified risk topics and issues; and<br>- updating and refining our approach to issue and risk identification and management. | →<br>Our overall approach to prudent management of reputational and brand risk remains unchanged. |
| **Client detriment**<br>Funding Circle's activities (or the failure to satisfactorily perform its activities) could impact the delivery of fair customer outcomes. | Improvements have been made to the way in which loan performance is reported and additional oversight and controls have been implemented.<br>Investments have been made in our Compliance Testing and Monitoring and Internal Audit functions, and customer-impacting topics have been the subject of review (for example data privacy, complaints handling and sales conduct). | →<br>Ensuring positive customer outcomes continues to be a fundamental priority for Funding Circle. |

## Operational risk

**Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.**

| KEY RISKS | MANAGEMENT OF RISK | CHANGE IN RISK IN YEAR |
|---|---|---|
| **Information security**<br>Failure to protect the confidential information of Funding Circle's borrowers, investors and IT systems may lead to financial loss, reputational damage and regulatory censure. | Our Chief Information Security Officer is responsible for managing information security and technology risk by formulating security and technology policies and performing security penetration tests and other assurance activities to protect Funding Circle client information and other assets.<br>The Board Risk and Compliance Committee and Executive Risk Committee review our key information security risks to ensure that they are within risk appetite.<br>We have a dedicated Information Security team which has implemented a robust, multi-layered security infrastructure that includes prevention and detective controls. | →<br>Through our Information Security Roadmap, we continue to make significant progress on mitigating our top information security risks with a focus on data protection, visibility and incident response. The establishment of the Technology Security and Risk Committee ensures oversight over the mitigation of key risks in this area. |
| **Financial crime**<br>Risk of regulatory breach, financial loss or reputational damage arising from a failure to adequately manage or prevent money laundering, terrorist financing, bribery and corruption, or to comply with sanctions regulations. | The Board has adopted policies to address financial crimes that have been implemented by Business Units through formal standards and procedures.<br>We have a dedicated Financial Crimes Operations team within the first line of defence that is advised, challenged and monitored by the second line Compliance team. | →<br>Complying with the laws and regulations designed to counter money laundering, terrorist financing, corruption and bribery is fundamental to Funding Circle's operations. |
| **Technology risk**<br>Failure of the technology platform could have a material adverse impact on Funding Circle's business, results of operations, financial condition or prospects. | The Board Risk and Compliance Committee and Executive Risk Committee review our key technology risks to ensure that they are within risk appetite.<br>We invest significantly in the Group's technology infrastructure to ensure that the platform is resilient and scalable to support business growth.<br>Key risk indicators are reviewed as part of the Operational Risk Committee.<br>We have a dedicated Information Technology Risk team that is responsible for risk oversight and governance. | →<br>Our migration to Amazon Web Services data centres has allowed for mitigation of some of our key technology risks for migrated applications. The establishment of the Technology Security and Risk Committee ensures oversight over the mitigation of key risks in this area. |

# Principal risks and uncertainties continued

as at 31 December 2018

## **Operational risk** continued

**Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.**

| KEY RISKS | MANAGEMENT OF RISK | CHANGE IN RISK IN YEAR |
|---|---|---|
| **Client money risk**<br>Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure. | We segregate funds for retail individuals and institutional investors in compliance with CASS regulation across a diverse range of banks.<br>We continue to manage the risk by:<br>- a monthly Client Money governance sub-committee solely focused on making decisions in relation to client money, as well as reviewing management information and regulatory returns;<br>- oversight from the Funding Circle Holdings plc Board and the Funding Circle Ltd Board including an annual report, prepared by the CF10a, that highlights client money risks; and<br>- external UK Client Money audit report executed by PwC and reviewed by the Funding Circle Ltd Board. | ↘<br>The structure of our Financial Operations and Payments teams remains unchanged.<br>We have enhanced controls in relation to payment creation, payment authorisation, reconciliation review and monthly reporting.<br>We have introduced best practices in relation to the holding and treatment of client money and perform daily reconciliations across all geographies, not just the UK. |

# Viability statement

In accordance with the UK Corporate Governance Code (the "Code"), the Directors have assessed the future prospects and viability of the Group for a period significantly longer than 12 months from the approval of the financial statements.

### Assessment of prospects

The Directors have determined that a three-year period to 31 December 2021 constitutes an appropriate period over which to perform the assessment as:

- it is consistent with the Group's medium-term planning process;
- it represents a period over which there is a reasonable degree of confidence in the reliability and accuracy of forecasts; and
- periods beyond this point in a high growth business like Funding Circle are significantly harder to predict accurately.

The Group's overall strategy and business model, as set out on pages 8 to 23, are fundamental in driving the growth of the business and therefore its future prospects. The key factors that are likely to affect the future prospects of the Group include the ability to:

- **grow awareness** of the Funding Circle brand in order to increase our market share of lending to SMEs;
- **diversify and increase funding** from a variety of investors in order to meet future borrower demand; and
- **continue to invest in data analytics and technology**, leading to expanded data sets, enhanced credit models and a better customer experience.

Funding Circle's future prospects are assessed through the Group's strategic planning process. The strategic planning process involves a detailed review of the plan by the CEO and CFO. This is done in conjunction with the Global Leadership Team, consisting of regional and functional leaders, together with a presentation and discussion at the Board.

The first year of this strategic plan consists of the Group's 2019 annual budget and is subject to a reforecast part way through the year. The budget is extended into the second and third year of the plan using expected growth rates already experienced across the Group. Progress against the financial budget and forecasts is then reviewed monthly by the Global Leadership Team and reported to, and challenged by, the Board.

## Key assumptions

The key assumptions underpinning the strategic plan (before severe but plausible scenarios) include:

- originations, LuM and revenue growth across the Group;
- conservative forecasts for gaining market share in each geography;
- controlled cost growth;
- no fundamental breakdown in the IT infrastructure or major data loss; and
- no significant impact on the business model or operations from a recession or Brexit.

## Assessment of viability

The output of the process above reflects the Directors' best assessment of the future prospects of the Group over the next three years. The Directors have carried out a robust assessment of the principal risks as set out on pages 39 to 44. They have also considered the potential impact of the risks on the viability of the Group.

The financial plan was then subject to differing scenarios to assess those risks and quantify their financial impact on the Group. The one that represented the most severe but plausible scenario was modelled as described below. This sensitivity took into account the likely mitigating actions to the operations.

| Scenarios | Link to principal risks and uncertainties | Impact on the business model |
|---|---|---|
| Severe global downturn impacting originations in each of our geographies | - Strategic risk<br>- Credit risk | Under a severe downturn it is expected that:<br>- there would be a significant increase in the number of borrowers defaulting;<br>- the returns for investors would be negatively affected resulting in a withdrawal of funding; and<br>- this in turn would reduce the level of originations unless much higher incentives were offered to investors to continue funding.<br>A further subset of risks including the reduction in trust from both borrowers and investors has also been considered within this scenario.<br>The mitigating actions that would be taken by management include a reduction in the overall marketing spend, a tightening of the credit models to improve the levels of return for investors and increased costs of borrowing for SMEs. |

The above scenario is hypothetical and severe but designed to stress the business model and the viability of the Group. The stress testing confirmed that the Group's forecast net cash position remained positive and that none of the scenarios would threaten the viability of the Group over the forecast period. In all cases including the severe scenario above, with appropriate management actions, the scenarios were controllable to mitigate the impact on the Group's liquidity.

Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities and obligations as they fall due over the period to 31 December 2021.

## Going concern

As a result of the work undertaken above to support the viability statement, the Directors also consider it appropriate to prepare the financial statements on a going concern basis.

# Promoting long-term success while maintaining a culture of openness and transparency

I am pleased to present Funding Circle’s first Corporate Governance Report which incorporates reports from the Chairs of each of our Board Committees.

## Dear shareholders

### UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance and, since the date of admission, has complied with the UK Corporate Governance Code published in April 2016 (the “2016 Code”).

The Board has also considered the impact of the revised UK Corporate Governance Code published in July 2018 (the “New Code”). The New Code places increased emphasis on culture and stakeholder (including workforce) engagement. As people and culture have always been considered fundamental to the success of the business, we believe we are already in a good place in these areas, but intend to spend some time during the coming year to ensure that our approach is in line with the New Code requirements whilst remaining appropriate for our business. The Corporate Governance Report section of the Annual Report sets out how we have complied with the principles of the 2016 Code during the year, highlighting key areas of focus and challenge for the Board and its Committees.

### Governance activity

Our Corporate Governance Report describes the work we have done throughout the IPO process to develop our Board and Committee processes and to support the development of a robust governance structure. I would like to thank the Board members for their continued support in ensuring timely, robust and constructive challenge around the Board table.

In preparation for listing, the Board either approved existing policies or established new policies, where necessary, with the aim of further strengthening the Company’s governance framework.

We consider a sound governance framework key in the creation of value for our shareholders and in growing the Company over the medium to long term. We aim to maintain open and transparent communication with our shareholders and we laid the foundations for this ongoing shareholder dialogue as we progressed through the listing process this year. We have held a number of meetings with institutional shareholders prior to and since admission to trading and we look forward to continuing to proactively engage with shareholders in an open and transparent way throughout 2019.

Bringing together an experienced, highly skilled and well-balanced Board was a key aim for our listing. We are delighted with the addition of Geeta Gopalan and Cath Keers, whose experience complements our existing Board and will be invaluable as we continue to grow and build a category-defining global company. The Board and I look forward to an exciting year ahead in the evolution of the business and I would like to thank all of our colleagues for their contribution during 2018.

**Andrew Learoyd**
Chairman
7 March 2019

This Corporate Governance Report explains key features of the Company's governance framework and sets out how the Company has applied the main principles of the 2016 Code. The 2016 Code can be found on the FRC website, www.frc.org.uk. The Board considers that the Company has been compliant with the 2016 Code provisions as applied during the period since listing.

We discuss our focus for the coming year with reference to the New Code. This report is set out under the following headings of the New Code:

**Governance**

1. Board leadership and Company purpose
   **see page 48**
2. Division of responsibilities
   **see page 54**
3. Composition, succession and evaluation
   **see page 55**
4. Audit, risk and internal control
   **see page 56**
5. Remuneration
   **see page 56**

## Consideration of the New Code

The Board has considered the New Code, which applies to financial years commencing on or after 1 January 2019.

A detailed analysis of the impact of the New Code has been carried out by the Company Secretary, who has identified areas requiring further attention over the coming year including formalisation of the extensive workforce engagement already in place. The Company Secretary will work with the Board and its Committees in 2019 to ensure that appropriate steps are taken to move towards compliance with the New Code. We will report further on any changes to the Company's governance framework in next year's Annual Report and Accounts.

# An experienced and effective leadership team

Board Committees

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- RC Risk and Compliance Committee
- ◯ Committee Chair

## Andrew Learoyd

R N

### Chairman of the Board

Andrew spent 23 years working in investment banking as a research analyst in corporate finance, equity capital markets and finally as COO of the Equities Division in Europe of Goldman Sachs. He retired as a Managing Director of Goldman Sachs in 2006; since then he has been involved as an angel investor, Non-Executive Director and consultant to several start-up businesses. He became involved with Funding Circle at the outset when he met three ambitious young entrepreneurs with no office and no coffee but an idea to change the world of banking.

## Samir Desai CBE

### Co-founder, Chief Executive Officer

Samir co-founded Funding Circle in 2010. He was previously a management consultant at the Boston Consulting Group and an investment executive at Olivant, a private equity firm that invests in financial services businesses in Europe, the Middle East and Asia. In 2015, Samir was awarded a CBE for services to financial services.

## Cath Keers

R N

### Non-Executive Director

Cath currently serves as Chair of Ustwo Fampany Limited, an independent digital product, games and venture business, and as non-executive director at Sage group plc and TalkTalk Telecom Group plc. She is also an adviser to a number of small businesses predominantly in technology.

Cath has recently held non-executive roles at the Royal Mail, Home Retail Group, LV= and Telefonica Europe. She previously held a number of commercial roles including marketing and business development at Sky TV, Avon and Next, latterly Marketing Director and Customer Director at O2, the mobile network, and Chairman of Tesco Mobile, O2's joint venture with Tesco.

## Hendrik Nelis

RC

### Non-Executive Director

Hendrik joined Accel in 2004 and invests in both early and late-stage internet and software companies. Before joining Accel, Hendrik was at Perry Capital, a $10 billion hedge fund, where he invested in public communications, media and technology companies and Goldman Sachs.

Having started his career at Hewlett-Packard, Hendrik founded E-motion, a venture-backed software company. He is an active member of the World Economic Forum and serves on the Selection Committee of the WEF Technology Pioneers Programme. Hendrik serves as manager, partner and/or director at a number of Accel entities, as well as a director or supervisory board member of several other companies.

## Sean Glithero

### Chief Financial Officer

As Global CFO, Sean serves on the Funding Circle Board and is responsible for all aspects of finance including internal audit, tax, treasury, procurement and investor relations.

Prior to joining Funding Circle in 2017, Sean served as a Director and Chief Financial Officer of Auto Trader Group and helped it undertake an initial public offering and join the FTSE 250. Sean qualified as a chartered accountant with Ernst & Young, working within both the audit and corporate finance departments.

## Eric Daniels

A RC

### Non-Executive Director

Eric currently holds a range of business appointments which include as an advisor, a non-executive director, a trustee or a board member. He also advises several innovative technology companies.

Eric was previously Group Chief Executive Officer of the Lloyds Banking Group, the FTSE 100 listed banking group, retiring in 2011. Prior to joining Lloyds in 2001, he spent 25 years with Citigroup in a range of management positions.

Eric holds a Master of Science in Management from the Massachusetts Institute of Technology and a Bachelor of Arts in History from Cornell University.

## Geeta Gopalan

A RC

### Non-Executive Director

Geeta has over 25 years of experience of financial services and retail banking, particularly payments and digital innovation. Geeta was formerly Executive Chair of Monitise Europe. Among the many roles in her financial services career, Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. She is a chartered accountant.

Geeta serves as Non-Executive Director of CYBG plc, Ultra Electronic Holdings and Wizink Bank SA, of which she is chair of the audit and risk committee.

## Neil Rimer

### Non-Executive Director

Neil is a co-founder and partner of Index Ventures. Before starting Index Ventures, he spent four years with Montgomery Securities in San Francisco. Neil is currently a Director or observer on various boards of companies based in the UK, Europe and US including Prodigy Investments Limited, Raisin GmbH, Peat GmbH and Pitch Software GmbH. He is also a Director of Human Rights Watch.

Neil was previously a Director of Photobox Holdco Limited, Supercell Oy and The Climate Corporation.

## Bob Steel

N

### Senior Independent Director

Bob is a partner at Perella Weinberg Partners. Bob was New York City's Deputy Mayor for Economic Development, where he was responsible for the Bloomberg Administration's economic development strategy and job creation efforts. As CEO of Wachovia Corporation in 2008, Bob oversaw the sale of the bank to Wells Fargo & Co. and served on the Wells Fargo board of directors. Bob has also served as the Undersecretary for Domestic Finance of the United States Treasury, the Vice Chairman of Goldman Sachs and a board member of Barclays.

Bob is director of Cadence Bancorp, LLC., Chairman of the Aspen Institute's Board of Trustees and has served as Chairman of Duke's Board of Trustees, Senior Fellow at the Harvard Kennedy School of Government, member of the FDIC Advisory Committee on Economic Inclusion, Chairman of The After-School Corporation, and Co-Founder of SeaChange Capital Partners.

## Ed Wray

A R

### Non-Executive Director

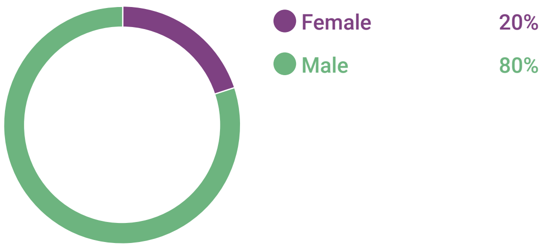
Ed co-founded Betfair in 1999 with Andrew Black and was Chief Executive until 2003, when he moved to Australia to set up the company's joint venture. He became Chairman in 2006. Betfair floated on the London Stock Exchange in 2010, valued at £1.4 billion. Prior to setting up Betfair, Ed spent eight years at J.P. Morgan & Co. as a Vice President in the debt capital markets and derivatives area.

Ed also serves as a director for a number of companies in the UK.

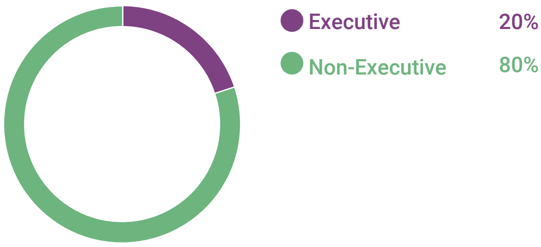
# Board leadership and Company purpose continued

The Board has a collective objective of promoting the long-term success of the Company for its shareholders and we provide dedicated leadership in the development and promotion of the Group's strategy and monitoring of its implementation on an ongoing basis. A key part of the Board's role is ensuring that the Group has the appropriate people, financial and other resources to achieve its aims. Along with the standing Committees, we are responsible for ensuring an appropriate system of governance is in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework.

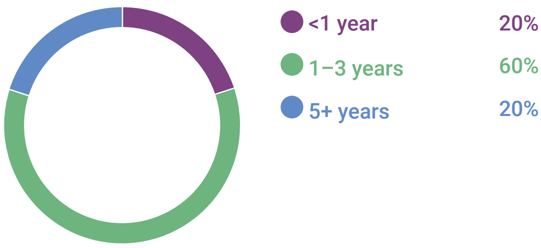
### Board gender diversity




### Board composition




### Board tenure




## Purpose, values and culture

We consider our employees and culture fundamental to the success of our business. Our team consists of a talented group of individuals who have strong alignment with our mission and share the same drive and passion as our customers. We believe that creating the right culture is crucial for both attracting and retaining talent. All permanent employees hold options and/or shares in the business, which ensures they are aligned with our mission, vision and objectives. We have developed a strong and engaging culture in each of our offices, as well as a set of five core values that represent who we are and how our team behaves (as described in the Strategic Report on page 26). The Board regularly receives reports on people-related matters and results from the culture surveys and the individual Directors spend time with employees, for example by participating from time to time in global quarterly meetings and town halls.

## Matters reserved to the Board and role of the Committees

Board meetings are planned around the key events in the corporate calendar, including the half-yearly and final results and the Annual General Meeting ("AGM") and a strategy meeting is held each year. The Board also receives a monthly management report. During the year, the Chairman and Non-Executive Directors have regularly met without Executive Directors present and the Chairman regularly gathers the views of the Non-Executive Directors outside formal Board meetings.

The Board has adopted a formal schedule of matters reserved for its approval and delegated other specific responsibilities to the Committees. The matters reserved to the Board and its Committees include:

- Group strategy, which is reviewed by the Board and management regularly during the year;
- the Group's annual operating budget;
- major investments, acquisitions and capital projects;
- internal controls and risk management;
- material contracts and expenditure;
- certain shareholder communications;
- Board membership and other appointments;
- corporate governance matters; and
- remuneration of Directors and the Global Leadership Team.

Each Board Committee has written Terms of Reference defining its role and responsibilities as summarised in the table below. Further details regarding the role and activities of each of the Board Committees can be found in the Committee reports. The schedule of matters reserved for the Board and Board Committees' Terms of Reference are also available on the Group's corporate website: corporate.fundingcircle.com.

## Nomination Committee

**Key objectives**

Reviewing the structure, size and composition of the Board, reviewing succession planning and making recommendations on appointments to the Board.

Membership

Andrew Learoyd (Chair)
Bob Steel
Cath Keers

**Nomination Committee Report – page 57**

**Principal responsibilities**

- Leads the process for Board appointments and makes recommendations to the Board
- Reviews the structure, size and composition of the Board and makes recommendations to the Board about any changes
- Considers plans and makes recommendations to the Board for orderly succession for appointments to the Board and senior management
- Keeps the Executive and Non-Executive leadership needs of the Group under review
- Evaluates the combination of skills, knowledge, experience, independence and diversity on the Board
- Reviews the results of the Board performance evaluation process, where they relate to the composition of the Board
- Makes recommendations to the Board about the re-election of Directors

## Audit Committee

**Key objectives**

Overseeing the financial and corporate reporting and internal financial controls of the Group, managing internal and external audit procedures and reviewing and overseeing the Group's procedures in relation to whistleblowing, bribery, fraud, money laundering and other financial crime.

**Membership**

Geeta Gopalan (Chair)
Ed Wray
Eric Daniels

**Audit Committee Report – page 59**

**Principal responsibilities**

- Monitors the integrity of the Company's financial statements
- Reviews and reports to the Board on significant financial reporting issues and judgements
- Assesses the effectiveness of the Group's financial reporting procedures
- Monitors and keeps under review the adequacy and effectiveness of the Group's internal financial controls and (in conjunction with the Risk and Compliance Committee) internal control systems
- Reviews and approves the role and mandate of the Group's Internal Audit function and monitors and reviews the effectiveness of its work
- Oversees the relationship of the Company with the external auditors, recommends their appointment and reviews their effectiveness, fees, terms of reference and independence

# Board leadership and Company purpose continued

## Matters reserved to the Board and role of the Committees continued

### Risk and Compliance Committee

**Key objectives**

Reviewing and making recommendations to the Board in relation to the Group's risk management and compliance systems and compliance with the Group Enterprise Risk Management Framework, the Group's compliance with legal and regulatory requirements and policies and the effectiveness and appropriateness of the Group's corporate governance framework.

**Membership**

Eric Daniels (Chair)
Hendrik Nelis
Geeta Gopalan

**Risk and Compliance Committee Report – page 63**

**Principal responsibilities**

- Assesses the emerging and current principal risk exposure of the Company and the Group and advises the Board on those risk exposures and future risk strategy
- Advises the Board on the Company's overall risk appetite, tolerance and strategy
- Reviews the Company's capability to identify and manage new risk types
- Monitors and keeps under review the adequacy and effectiveness of the Group's internal risk management systems
- Considers and approves the remit of the Risk Management and Compliance functions, in conjunction with the Audit Committee
- Provides advice and challenge necessary to embed and maintain a supportive risk and compliance culture throughout the Group
- Monitors and keeps under review the policies and overall process for identifying and assessing strategic, operational, credit and reputational and conduct risks and managing their impact on the Company and Group
- Considers and approves the annual risk and compliance monitoring and testing plans

### Remuneration Committee

**Key objectives**

Determining the remuneration of the Directors and senior employees of the Group and determining the policy for the Executive Directors as well as monitoring and reviewing its ongoing appropriateness and relevance.

**Membership**

Cath Keers (Chair)
Andrew Learoyd
Ed Wray

**Directors' remuneration report – page 65**

**Principal responsibilities**

- Considers, monitors and reviews the ongoing appropriateness and relevance of the remuneration policy (including its level and structure) and consults with significant shareholders and other stakeholders as appropriate
- Promotes long-term shareholdings by Executive Directors that support alignment with long-term shareholder interests
- Considers, determines and approves the provisions of the service agreements of the Executive Directors and ensures that any payments that may be made under such provisions are fair to the individual and the Company
- Reviews workforce remuneration and related policies and the alignment of incentives and rewards with culture and takes these into account when determining the remuneration of the Executive Directors
- Agrees the policy for authorising claims for expenses from the Directors
- Reviews the design of any new share incentive schemes for approval by the Board and, as required, the Company's shareholders

### Disclosure Committee

In addition, the Board has delegated to the Disclosure Committee responsibility for overseeing the disclosure of information by Funding Circle to meet its obligations under the Market Abuse Regulations, the FCA's Listing Rules and the Disclosure and Transparency Rules. The Disclosure Committee comprises the Chair of the Board, the Chair of the Audit Committee, the CEO, the CFO, the CRO and the Global General Counsel.

Day-to-day management of the Group, including the implementation of the Group's business plan and strategy, is delegated by the Board to the Global Leadership Team, chaired by the Chief Executive Officer, Samir Desai. The Global Leadership Team is responsible for managing the business, delivering the strategy, managing risk, ensuring regulatory compliance, establishing financial and operational targets and monitoring performance against those targets.

## Board activity

The Board held a number of meetings during 2018, both before and after the IPO. In 2018, following the IPO and the formal establishment of the Board Committees, two Board meetings and two Committee meetings were held and all Directors and Committee members were present at all meetings (all except one being present in person). In total, prior to the date of this report, five Board meetings and eight Board Committee meetings have been held since the IPO. The Company Secretary or her Deputy attended all meetings. In addition, more than 10 Board meetings were held prior to the IPO before the Company was required to comply with the 2016 Code.

The table below sets out attendance at Board and Committee meetings in 2018 following the IPO.

| Post-IPO | Board | Audit | Risk and Compliance | Remuneration | Nomination |
|---|---|---|---|---|---|
| No. of meetings | 2 | 1 | 1 | – | – |
| Andrew Learoyd (Chairman) | 2 | | | | |
| Samir Desai | 2 | | | | |
| Sean Glithero | 2 | | | | |
| Eric Daniels | 2 | 1 | 1 | | |
| Geeta Gopalan | 1[1] | 1 | 1 | | |
| Cath Keers | 2 | | | | |
| Hendrik Nelis | 2 | | 1 | | |
| Neil Rimer | 2 | | | | |
| Bob Steel | 2 | | | | |
| Ed Wray | 2 | 1 | | | |

1. Appointed 1 November 2018 – attended October Board meeting but not as a Director.

The Board and Board Committee meeting schedule for 2019 has been approved by the Board and the Board will meet formally at least six times per year with an additional Board strategy session. Ad hoc meetings may be called as and when appropriate.

The activities undertaken by the Board in 2018 since admission were intended to promote the success of the Company. The meetings held focused on the following main themes:

Theme 1) Corporate governance and the role of the Board following IPO

Theme 2) The Group's funding strategy

Theme 3) Marketing strategy

Theme 4) Approval of 2019 budget and review of management accounts

Theme 5) Tech and product developments, including a review of cyber and information security

In addition, at each Board meeting the standing agenda includes:

- approval of minutes (circulated to all Directors in advance for comment) and review of outstanding actions;
- corporate governance and Committee reports;
- investor relations and communications (including quarterly shareholder analysis reports);
- report from the CEO, including key developments in the Group's business; and
- financial and operational review.

Agendas and accompanying papers are distributed to the Board and Committee members well in advance of each Board or Committee meeting. These include reports from Executive Directors, other members of senior management and external advisers. All Directors have direct access to senior management should they require additional information on any of the items to be discussed.

The Board and the Audit Committee receive further regular and specific reports to allow the monitoring of the adequacy of the Company's systems of internal controls (described in more detail in the Audit Committee Report on page 59).

## Shareholder and stakeholder engagement

The Board believes that engaging regularly with the Company's shareholders is vital to the Group's success. The Group aims to maintain an active dialogue with its shareholders, including institutional shareholders, to discuss issues relating to the performance of the Group. Communicating and engaging with shareholders means the Board can express clearly its strategy and performance and receive regular feedback. It also gives the Company the opportunity to respond to questions and suggestions.

The Non-Executive Directors are available to discuss any matter shareholders might wish to raise and to attend meetings with shareholders and analysts, as required. Investor relations activity is a standing item on the Board's agenda and ensuring a satisfactory dialogue with shareholders is a matter reserved to the Board.

Our Senior Independent Director, Bob Steel, serves as an additional point of contact for shareholders should they feel that any concerns are not being addressed properly through the normal channels. He may be contacted through the Company Secretary.

The Company's Annual General Meeting ("AGM") will take place on 5 June 2019 at 65 Fleet Street, London, EC4Y 1HS. The Chairman, and the Chairs of the Audit, Remuneration and Risk and Compliance Committees, will be present to answer questions put to them by shareholders. Electronic proxy voting will be available to shareholders through both our Registrar's website and the CREST service. Voting at the AGM will be conducted by way of a poll and the results will be announced through the Regulatory News Service and made available on the Company's website.

We discuss other stakeholders, in addition to shareholders, within our Strategic Report.

# Division of responsibilities

There is a clear division of responsibilities between the Chairman and the CEO (which has been set out in writing and approved by the Board) and these responsibilities, as well as the role of the Senior Independent Director and other members of the Board, are set out below:

## The Board

### Chairman

Responsible for:

- the leadership and overall effectiveness of the Board and for upholding high standards of corporate governance throughout the Group and particularly at Board level.
- setting the Board agendas with the Company Secretary and CEO and the recommendation of an annual Board and Committee meeting schedule.
- promoting a culture of openness and debate, in particular by facilitating the effective contribution of Non-Executive Directors, and ensuring constructive relations between Executive and Non-Executive Directors.
- ensuring effective communication with shareholders and discussing governance, remuneration and strategy with major shareholders.

### Chief Executive Officer

Responsible for:

- leadership of the Global Leadership Team in the executive management of the Group.
- the development of the Group's strategy, annual budget and business plans and commercial objectives with the Board.
- setting an example and communicating to the Group's employees the expectations of the Board in relation to the Group's culture, values and behaviour.
- ensuring appropriate, timely and accurate information is disclosed to the market.
- managing the Group's risk profile in line with the extent of risk identified as acceptable by the Board and ensuring appropriate internal controls are in place.

### Senior Independent Director

Role is to:

- be available to shareholders if they have concerns, which contact through the normal channels of the Chair, CEO or other Executive Directors has failed to resolve.
- attend sufficient meetings with and listen to the view of major shareholders.
- provide a sounding board for the Chair and act as an intermediary for shareholders when necessary.
- meet other Non-Executive Directors without the Chair present once a year to appraise the Chair's performance.

### Chief Financial Officer

Responsible for:

- all aspects of finance including internal audit, tax, treasury procurement and investor relations.
- working with the CEO to develop and implement the Group's strategic objectives.
- ensuring effective financial compliance and control.

### Non-Executive Directors

Responsible for:

- providing objective and constructive challenge to management.
- assisting with the development of strategic proposals.
- scrutinising and monitoring financial and operational performance and the Group's risk management framework.

### Company Secretary

Responsible for:

- being available to all Directors to provide advice and assistance.
- providing governance advice.
- ensuring compliance with the Board's procedures and with applicable rules and regulations.

# Composition, succession and evaluation

As at the date of this report, the Board comprised the Chair, the Executive Directors and the Non-Executive Directors, including the Senior Independent Director. The current Directors served throughout all of 2018, except for Cath Keers and Geeta Gopalan who were appointed in May 2018 and November 2018, respectively.

The 2016 Code recommends that at least half of the Board, excluding the Chairman, should comprise independent Non-Executive Directors. Circumstances likely to impair, or which could appear to impair, a Director's independence include whether a Director participates in the Company's share option plan. As an early stage private company, which did not pay Directors' fees, the Company has historically granted options to certain Non-Executive Directors under the Company's share option plan. Although the options granted will continue to vest and be held by those Non-Executive Directors following admission, no further options will be granted to Non-Executive Directors under any of the Company's share option plans. The Board does not consider that the historical granting of options to Non-Executive Directors, or the continued vesting of options already granted, under the existing share option plan impairs the independence of those Directors concerned and considers that all Non-Executive Directors other than Hendrik Nelis and Neil Rimer are independent in character and judgement and are free from any business or other relationships which could materially affect the exercise of their judgement.

Additionally, the Directors, both individually and collectively, have the range of skills, knowledge, diversity of experience and dedication necessary to lead the Group and have the requisite strategic and commercial experience to contribute to the leadership of Funding Circle.

## Appointment and election

The Non-Executive Directors are expected to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Their letter of appointment states that the nature of the role makes it impossible to be specific about the maximum time commitment. Each of the Non-Executive Directors has confirmed that they continue to be able to devote sufficient time to discharge their duties effectively as Directors of the Company. The Nomination Committee reviews the other directorships and commitments held by the Directors and is satisfied that this is the case.

The Board considers all Directors to be effective and committed to their roles. The Board has decided to comply with provision B.7.1 of the 2016 Code and accordingly all members of the Board will be offering themselves for re-election at the Company's future Annual General Meetings.

## Board induction and training

All new Directors receive a comprehensive induction plan on joining the Board. This includes the following:

- overview of Funding Circle through meetings with members of the Global Leadership Team;
- overview by the Chairman on the Board structure, Committees and roles and responsibilities and an overview of the Board calendar, key dates and Board documentation by the Company Secretary;
- overview of key customers (borrowers and investors) and partners;
- training on public company duties; and
- meeting with internal and external auditors and key advisers as appropriate.

The Board is committed to the training and development of Directors and employees. The Company Secretary is responsible for helping the Chairman regularly review and organise appropriate training for the Directors. In order for our Directors, particularly the Non-Executive Directors, to discharge their responsibilities, it is essential they have a detailed understanding of our business. All Directors have the opportunity to visit the Company's offices and operations. They have continuous access to the knowledge and expertise of senior management and regularly receive its input at Board meetings. All Directors are required to undertake relevant compliance training and receive training on public company duties and relevant regulations.

## Board evaluation and succession planning

As the Nomination Committee has only been established for a short time, a formal performance evaluation has not yet been conducted. It is intended that an internal performance evaluation will be conducted in 2019 and reported in the Company's 2019 Annual Report and Accounts. Succession planning will also be a key focus of the Nomination Committee in 2019.

# Audit, risk and internal control

The Board has delegated to the Audit Committee responsibility for overseeing the financial and corporate reporting and internal financial controls of the Company and its subsidiaries. This includes reviewing the content of the Annual Report and Accounts and advising the Board on whether, taken as a whole, it is fair, balanced and understandable. You can find details of this process and the focus of the review and of the Audit Committee's role, activities and relationship with the external auditors on page 60 of the Audit Committee Report.

## Responsibility for preparing the Annual Report and Accounts

The Board is responsible for maintaining adequate accounting records and seeks to ensure compliance with statutory and regulatory obligations. An explanation from the Directors about their responsibility for preparing the financial statements in the Statement of Directors' Responsibilities is on page 83. The Company's external auditors explain their responsibilities on page 89.

## Risk management and internal control systems

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders, as well as taking account of other stakeholders including employees and customers. This includes ensuring that an appropriate system of risk governance is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a "Three Lines of Defence" model and reserves for itself the setting of the Group's risk appetite.

The Board oversees the Group's risk management and internal control system and is responsible for reviewing its effectiveness. In preparation for the IPO, the Board carried out a robust assessment of the principal risks and uncertainties facing the Group, which are described in more detail on pages 39 to 44 of the Strategic Report, the Report of the Risk and Compliance Committee and the Report of the Audit Committee.

The Board retains ultimate responsibility for the Group's systems of internal control and risk management but has delegated in-depth monitoring of the establishment and operation of prudent and effective controls in order to assess and manage risks associated with the Group's operations to the Risk and Compliance Committee and Audit Committee. The Risk and Compliance Committee also monitors compliance with the Group Enterprise Risk Management Framework ("ERMF"). More information on the ERMF is provided on pages 36 and 38.

Members of the Global Leadership Team are responsible for the application of the ERMF, for implementing and monitoring the operation of the systems of internal control and for providing assurance to the Audit Committee, the Risk and Compliance Committee and the Board. Risk management and compliance constitute the second line of defence. The Risk Management function is accountable for the quantitative and qualitative oversight and challenge of the identification, measurement, monitoring and reporting of principal risks and for developing the ERMF. The Compliance function supports and advises the business on the identification, measurement and management of its regulatory and conduct risks. It is accountable for maintaining the compliance standards and framework within which the Group operates, and monitoring and reporting on its compliance risk profile. The third line of defence is Internal Audit, which is currently outsourced to KPMG. This function provides independent and objective assessment on the robustness of the ERMF and the appropriateness and effectiveness of internal controls to the Audit Committee, the Risk and Compliance Committee and the Board.

## Remuneration

The Board has delegated responsibility to the Remuneration Committee for the remuneration arrangements of the Group's Executive Directors and Chairman. It also recommends and monitors the remuneration level and structure for the Global Leadership Team. You can find out more about this in the Directors' Remuneration Report starting on page 65.

# Report of the Nomination Committee

Committee members

Andrew Learoyd (Chair)

Bob Steel (Senior Independent Director)

Cath Keers (Independent Non-Executive Director)

"The main focus of the Committee will be to oversee succession planning for the Board and senior management and to ensure there is a diverse and appropriate balance of skills on the Board."

## Dear shareholders

On behalf of the Board, I am pleased to present our first Nomination Committee Report for the year ended 31 December 2018.

### Committee composition, skills and experience

The Committee was formally established by the Board prior to the IPO in September 2018. Bob Steel and Cath Keers join me as the other members of the Committee. We confirm that we have complied with the 2016 Code recommendation that the Committee comprises a majority of independent Non-Executive Directors.

### Role of the Committee

The Committee assists the Board in reviewing the structure, size and composition of the Board. It is also responsible for ensuring plans are in place for orderly succession to both Board and Global Leadership Team positions, and making appropriate recommendations to the Board for appointments to the Board.

The key responsibilities of the Committee are summarised on page 51 of the Corporate Governance Report and further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our website at: corporate.fundingcircle.com.

### Operating rhythm of the Committee

The Committee will meet at least once a year and on an ad hoc basis as required throughout the year. Although we did not meet formally in 2018, the first formal Committee meeting took place on 29 January 2019. The meeting focused on the role, and key areas of focus, of the Committee for 2019, as set out below. We are satisfied that we have a good balance of skills and experience on the Board to support the Company's future development and, accordingly, recommend to the Board that each Director stand for election at the forthcoming AGM.

### Key focus of the Committee for 2019

In 2019, the key areas of focus for the newly formed Committee will be:

- developing plans for orderly succession to both the Board and the Global Leadership Team, keeping in mind the importance of a diverse pipeline;
- keeping the balance of skills, experience, independence and knowledge of the Board as a whole – this was carefully considered at the time of the IPO and the Committee is satisfied with the current balance of the Board but, as set out below, a further internal review will be carried out in 2019 to consider the composition and diversity of the Board and how effectively the Directors are working together to achieve the Board's objectives; and
- promoting diversity – the Committee recognises the emphasis in the New Code on diversity and it intends to take an active role in setting and meeting diversity objectives and strategies for the Company as a whole and in monitoring the impact of diversity initiatives.

# Report of the Nomination Committee continued

## Board induction and training

All new Directors receive a comprehensive induction plan on joining the Board. Further details of this are set out on page 55 of the Corporate Governance Report.

## Diversity and inclusion

The Company is committed to creating an inclusive culture, free from discrimination of any kind, and this extends to Board appointments. The Board recognises the benefits of diversity, including gender diversity, on the Board, although it believes that all appointments should be made on merit, whilst ensuring that there is an appropriate balance of skills and experience within the Board. See the gender breakdown of the Board and the Global Leadership Team on page 27.

We have published the UK's gender pay gap report on our website. This also sets out our aims to achieve high levels of diversity across the Company. Further details of our diversity and inclusion initiatives are set out on page 27.

## Board appointments

During the year (and in preparation for the IPO) the Board appointed two Non-Executive Directors, Cath Keers and Geeta Gopalan, selected primarily on the basis of their industry and public company skills, knowledge and experience, but also to promote greater diversity on the Board. An external recruitment consultant, Heidrick & Struggles, was appointed which did a thorough review of available candidates, taking into account the required skills, knowledge and experience the Board had identified and the Company's diversity objectives. As part of the process, an assessment of the candidates' skills was undertaken and interviews were held with members of the Board and the Global Leadership Team on a one-on-one basis prior to appointment. The Committee is satisfied that the recruitment consultant used has no other connection with the Company and that the advice it received is independent.

## Annual evaluation

As the Committee has only been established for a short time, we have not conducted a formal performance evaluation but we plan to do so during 2019. We will report on this in the 2019 Annual Report and Accounts.

**Andrew Learoyd**
Chair of the Nomination Committee
7 March 2019

# Report of the Audit Committee

Committee members
Geeta Gopalan (Chair)

Eric Daniels (Independent Non-Executive Director)

Ed Wray (Independent Non-Executive Director)

"The Committee's primary responsibility is to assist the Board through the oversight and monitoring of financial reporting and keeping under review the adequacy and effectiveness of the Group's internal financial controls."

## Dear shareholders

On behalf of the Board, I am pleased to present our first Audit Committee Report for the year ended 31 December 2018.

The Funding Circle Holdings plc Audit Committee was formally established by the Board prior to the IPO in September 2018. I was appointed as Chair on my appointment as a Director of the Group in November 2018. Eric Daniels and Ed Wray join me as the other members of the Committee. The Committee members are all independent Non-Executive Directors and between them have extensive experience in banking and financial services as well as in technology and high growth companies. Further detail on the Committee members' skills and experience is documented in their biographies on page 48. The Board is satisfied that the Committee meets the requirement to have recent and relevant financial experience as recommended under provision C.3.1 of the 2016 Code.

The Board has delegated to the Committee responsibility for overseeing the financial and corporate reporting and internal financial controls of the Group, for reviewing the Group's internal control systems, for reviewing and overseeing the Group's procedures for detecting and preventing bribery, fraud, money laundering and other financial crime, for managing both internal and external audit procedures and for maintaining an appropriate relationship with the external auditors of the Group.

It is our intention to meet at least three times per year. Since the formation of the Committee in September 2018, it has met on one occasion in 2018 and on one occasion in 2019. There were also three meetings of the Funding Circle Holdings Limited Audit, Risk and Compliance Committee in 2018 prior to the IPO and formation of the Committee. A summary of the matters discussed at the meetings of the Committee in 2018 is set out in the following report.

### External auditors

PricewaterhouseCoopers LLP ("PwC") were appointed as the Company's external auditors in 2015. The Committee has reviewed the effectiveness and independence of PwC and has recommended to the Board that they are reappointed.

### Annual evaluation

As the Audit Committee has only been established for a short time, we have not conducted a formal performance evaluation but we plan to do so during 2019. We will report on this in the 2019 Annual Report and Accounts.

We are pleased with the progress we have made since the IPO and we will continue to work with the management team and the Board to ensure our governance framework and control processes operate effectively to support the delivery of the Group's strategy.

# Report of the Audit Committee continued

## Role of the Committee

The Board has delegated to the Committee responsibility for overseeing the financial and corporate reporting and internal financial controls of the Group and for managing both internal and external audit procedures.

The key responsibilities of the Committee are summarised on page 51 of the Corporate Governance Report and further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our website at: corporate.fundingcircle.com.

## Meetings

All members of the Committee attended all meetings together with the CFO, representatives of the external and internal auditors and, where it was deemed appropriate, members of the senior management team. The Committee received information on a timely basis and meetings were scheduled adequately to allow members to have an informed debate.

In addition to attendance at the Committee meetings, the Committee also met with the external auditors and internal auditors without Executive Management present. I also have direct and frequent confidential communication with our external audit partner and internal auditors.

## Activities of the Committee

The key matters considered at the meetings of the Committee during the year included:

- review and approval of the internal audit plan for 2019;
- review and approval of external audit plan and fees for the 2018 financial year, including independence, objectivity and effectiveness of the external auditors;
- review of the ongoing effectiveness of the Group's internal controls and risk management systems;
- review and approval of the Group's non-audit services fees and policy;
- review of the adequacy and security of the Group's whistleblowing arrangements and whistleblowing update.
- review of significant audit and accounting judgements, including viability statement and going concern assessment;
- review and approval of the Group's 2018 Annual Report and Accounts and preliminary announcement; and
- recommendation on reappointment of external auditors.

## Significant issues considered in relation to the financial statements

The Committee assessed the quality, appropriateness and adherence to the Group's accounting policies and principles. It reviewed whether the accounting estimates and judgements made by management were appropriate. The significant issues and accounting judgements considered by the Committee in respect of the year ended 31 December 2018 are set out below.

| Reporting issue | Audit Committee action |
|---|---|
| **Principal risks and viability**<br>As a listed company, the Directors must satisfy themselves, and make a statement in the Annual Report, on the viability of the Group. The period over which the Directors have determined this assessment is three years. | The Committee reviewed reports from management that set out its view on the longer-term viability of the Group. These included reviewing:<br>- the Group's long-term forecasts and its cash and liquidity;<br>- the Group's principal risks as set out on pages 39 to 44; and<br>- outcomes of stress testing after applying severe but plausible scenarios aligned to the principal risks.<br>Having challenged and considered the outcomes of management's assessment the Committee concluded to recommend the viability statement to the Board for approval. |
| **Goodwill**<br>The Group is required to annually assess any goodwill for impairment. The Group holds goodwill in respect of the previous acquisitions of Zencap in Europe and Endurance Lending Network in the US.<br>For each of these geographies there was significant headroom over their carrying value. | The Committee reviewed a paper from management which set out the key assumptions underpinning the value in use assessment and the level of headroom and sensitivity to those assumptions.<br>The Group's external auditors also provided their view of the assessment to the Committee.<br>After due challenge and discussion, the Committee concluded that there remained sufficient levels of headroom over the carrying values of these geographies. |
| **Share-based payments**<br>The calculation of the fair value of share awards involves a number of assumptions. Prior to IPO, there was no publicly available share price and therefore the Group was required to obtain separate valuations of the business in order to calculate fair value for IFRS purposes.<br>This involves a number of assumptions and judgements.<br>Following the IPO, the Group is able to use the share price as the starting point for valuing new awards. | The Committee received and reviewed various reports from management during the year that set out the basis of those calculations undertaken by external valuers.<br>Taking into account the papers received and with the benefit of hindsight on the Group's valuation following the IPO in October 2018, the Committee concluded that the valuations used for share awards during the year remained appropriate. |

| Reporting issue | Audit Committee action |
|---|---|
| **Expected credit losses ("ECLs")**<br>The calculation of the ECL provision, where the Group has provided certain institutional investors with financial guarantees, requires estimation as to the expected level of borrower defaults using both historical trends and forward-looking information. | The Committee received and reviewed information from management during the year on the levels of ECL and the associated provisioning.<br>The Committee also received the views and analysis from the external auditors.<br>Taking each of these into account, the Committee concluded that the approach to provisioning and the associated disclosures for ECLs were reasonable. |
| **Exceptional items**<br>The costs associated with the IPO have been treated as exceptional items in line with the Group's accounting policy for such items. | The Committee received a paper from management setting out analysis for the IPO costs together with their accounting treatment with costs associated allocated between the primary raise and secondary raise.<br>The Committee also received the views of the external auditors on the items that management had included within these costs.<br>The Committee considered the appropriateness of presenting these items separately from other costs and the allocation.<br>It noted that the disclosure as exceptional was consistent with the Group's accounting policy as well as other listed companies following IPOs.<br>Accordingly it concluded that the amounts and this presentation were appropriate. |
| **Alternative performance measures ("APMs")**<br>The Group uses APMs in its segment reporting of segment adjusted EBITDA and adjusted EBITDA. These measures are defined within the segmental information note.<br>The Group uses these measures as they provide an alternative interpretation of the underlying performance of the business and how it is managed. They also provide a closer approximation to cash generation which is key in a fast-growing business.<br>Additionally, they are measures that the external analysts use to assess the Group's performance. | The members of the Committee, also being Board Members, received management and operational information about the Group's underlying performance which included these key measures.<br>The Group also obtained the view of the use of these measures from the external auditors.<br>The Committee considered the appropriateness of these measures in providing meaningful information about the underlying performance of the business and concluded that these additional measures should be used to report externally, assuring itself that these are not being given undue prominence. |
| **Fair, balanced and understandable reporting**<br>The Board is required to report as to whether the contents of this 2018 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable. | At the request of the Board, the Committee has assessed the information contained within this Annual Report.<br>This assessment included discussions with management on the underlying financial processes, and confirmation from the CFO and his team and the Group's Head of Investor Relations and Communications that the information contained within the Annual Report is fair, balanced and understandable.<br>The Committee also discussed the contents of the Annual Report with the external auditors.<br>Having considered all of the available information including previously published information about the business, such as the IPO Prospectus, it has concluded that, in its judgement, the Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable. |

# Report of the Audit Committee continued

## Internal controls and risk management

The Committee, in conjunction with the Risk and Compliance Committee, is responsible for reviewing the risk management systems and internal controls to ensure that they remain effective and that any identified weaknesses are appropriately dealt with.

During the year the Committee (and, prior to September 2018, the Audit, Risk and Compliance Committee) assessed the findings of reviews into internal controls, fraud and misconduct risk, alongside management responses. The Committee also considered the effectiveness of systems for internal control, financial reporting and risk management including a review of all material financial, operational and compliance controls.

## Internal audit

The Group uses KPMG, which are accountable to the Committee, as its outsourced Internal Audit function. Their work focuses on areas of key business risk, significant processes and current areas of concern to define their audit plan. The internal audit plan for 2019 was approved by the Audit Committee in November 2018 and covers a broad range of processes and controls across the business including:

- information and cyber security;
- investor and borrower communications;
- compliance with regulatory frameworks including client money requirement; and
- financial and non-financial risk oversight.

Actions arising from the audits are monitored through to completion and reported to the Audit Committee to ensure they are appropriately addressed.

The Audit Committee will review the effectiveness of the Internal Audit function after its first full year of operation across the Group.

## Whistleblowing

The Board adopted a revised whistleblowing policy in January 2019. The Company provides employees with access to a telephone service run by an independent organisation to enable employees to report on an anonymous basis. The Committee is responsible for reviewing the whistleblowing policy and process, and both the Committee and the Board receive whistleblowing updates at each meeting as well as reports on any concerns raised. After due challenge, along with some suggestions for further improvement, the Committee concluded that the policy and procedures remain effective.

## External auditors

The Committee is responsible for overseeing the Group's relationship with its external auditors, PricewaterhouseCoopers LLP ("PwC"). This includes the ongoing assessment of the auditors' independence and the effectiveness of the external audit process, the results of which inform the Committee's recommendation to the Board as to the auditors' appointment (subject to shareholder approval) or otherwise.

PwC was first appointed as the external auditors of the Company in 2015. The current lead audit partner, Brian Henderson, has been in place for four years.

The Committee has reviewed the quality of PwC's audit plan and its assessment of management's judgements during the year and is satisfied that the audit process was effective. It will undertake a more formal assessment of their effectiveness during 2019, which will be the first year-end audit post-IPO.

A resolution recommending the appointment of PwC as external auditors of the Company will be put to shareholders at the Company's first Annual General Meeting in June 2019.

In accordance with the 2016 Code and EU legislation, the Committee intends to put the external audit out to tender at least every ten years post-IPO.

The Committee confirms that the Group is in compliance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

## Non-audit services

The engagement of the external audit firm to provide non-audit services to the Group can impact on the independence assessment, and the Company has, therefore, adopted a policy which requires Audit Committee approval for non-audit services.

Fees paid to PwC for non-audit services are presented at each Audit Committee meeting.

During the year ended 31 December 2018, PwC were engaged to provide non-audit services relating to the following:

| Description | £m |
|---|---|
| Assurance-related work | 0.1 |
| Tax compliance services (non-EU) | 0.1 |
| Reporting accountant | 2.0 |

During the year, £2.0 million of non-audit services were provided by PwC in the role of reporting accountant as part of the IPO.

PwC is prohibited from providing certain non-audit services including but not limited to internal audit work, valuations work and tax-related work within the EU. Further details on audit and non-audit fees are shown in note 5 to the financial statements.

PwC has confirmed to the Committee during the year that, despite the level of non-audit fees, it remained independent.

**Geeta Gopalan**
Chair of the Audit Committee
7 March 2019

# Report of the Risk and Compliance Committee

### Committee members

Eric Daniels (Chair)

Geeta Gopalan (Independent Non-Executive Director)

Hendrik Nelis (Non-Executive Director)

"Strong governance, risk management and controls are vital to the long-term sustainability of Funding Circle."

## Dear shareholders

On behalf of the Board, I am pleased to present the report of the Risk and Compliance Committee for the year ended 31 December 2018.

The Company's approach to risk and risk management, together with the principal risks that face the Group, is set out on pages 38 to 44 of this report. The Committee has monitored the Group's risk management and governance framework and I am pleased with the progress made over the year in the management, and reporting, of the key risks facing the Group particularly in relation to marketplace funding, portfolio risk management and operational risk.

### Committee composition, skills and experience

The Committee was formally established by the Board prior to the IPO in September 2018. Geeta Gopalan and Hendrik Nelis join me as the other members of the Committee. We confirm that we have complied with the 2016 Code recommendations that the Committee comprises a majority of independent Non-Executive Directors. The Committee members have a wealth of risk management experience, including strong representation in financial services. Further details of their experience is set out on pages 48 and 49 of this report.

As the Risk and Compliance Committee has only been established for a short time, we have not conducted a formal performance evaluation but we plan to do so during 2019. We will report on this in the 2019 Annual Report and Accounts.

Prior to the IPO and formal establishment of the Committee, I was Chair of the combined Funding Circle Holdings Limited Audit, Risk and Compliance Committee which assisted the Board with its consideration of all aspects of risk management across the Group and the Group's compliance with its legal and regulatory requirements.

### Role of the Committee

The main purpose of the Committee is to review and make recommendations to the Board in connection with the Group's risk strategy and its attitude to and appetite for risk and to monitor and review the Group's compliance with the Enterprise Risk Management Framework ("ERMF"). In addition, the Board has delegated to the Committee responsibility for reviewing and monitoring the Group's compliance with legal and regulatory requirements and policies and the effectiveness and appropriateness of the Group's corporate governance framework.

The key responsibilities of the Committee are summarised on page 52 of the Corporate Governance Report and further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our website at: corporate.fundingcircle.com.

The Committee reports regularly to the Board on its activities and makes recommendations, all of which have been accepted during the year.

# Report of the Risk and Compliance Committee continued

## Governance and operating rhythm of the Committee

The Committee will meet as often as it deems necessary with at least three scheduled meetings a year. We met on one occasion in 2018 following the IPO and have had one further formal meeting since the year end. There were also three meetings of the Funding Circle Holdings Limited Audit, Risk and Compliance Committee in 2018 prior to the IPO. A summary of the key areas of focus for 2018 is set out below.

All members of the Committee have attended meetings held since the IPO, together with (by invitation) the Chief Risk Officer and the General Counsel and other members of the senior management team where it was deemed appropriate. I am satisfied that the Committee received information on a timely basis and that the meetings were scheduled adequately to allow members to have an informed discussion/debate.

As Funding Circle Ltd ("FCL") is authorised and regulated by the Financial Conduct Authority, it has its own Risk and Compliance Committee and Audit Committee, both chaired by FCL's independent Director (who is not on the Board), Matthew King. The FCL Risk and Compliance Committee meets at the same time as the Committee and Matthew King has attended all meetings.

## Key areas of focus for the Committee in 2018

The Committee has considered a wide range of risks facing the Group, both existing and emerging, across all key areas of risk management. Certain risks have been identified which required further detailed consideration. A summary of these matters is set out below and includes the key considerations and conclusions of the Committee.

### Marketplace funding

The Committee closely monitored marketplace funding risk given the broader impact it has on delivering business performance. The Committee received regular reports of the Group's marketplace funding key performance indicators, as well as developments to the Group's marketplace funding governance framework. The Committee oversaw some improvements in managing marketplace funding risk in 2018 such as improved reporting and ongoing efforts to diversify marketplace funding sources. This will remain an area of focus for the Committee in 2019.

### Portfolio risk management

The Committee monitored credit risk performance against the Group's risk appetite metrics and policies. Whilst the Group is not directly exposed to credit losses, the Committee monitored the credit quality of the Group's lending portfolio to ensure that investors' returns were adequately protected. Credit performance and portfolio returns have been strong in the US, Germany and the Netherlands. In the UK, some weaknesses have been identified and the Committee oversaw the tightening of lending criteria in 2018 to ensure credit performance measures are in line with credit risk appetite. This will remain an area of focus in 2019.

### Economic environment

The Global CRO provided reports on early warning signals of a possible recession and potential implications to the credit portfolio performance in each geography. The Committee received detailed stress testing reports and associated plans on the potential impact on the UK portfolio in the context of a "hard" Brexit scenario. The Committee also requested and received an independently validated report of the Funding Circle UK stress testing model in October 2017. A further report will be provided to the Committee in 2019.

### Regulatory, reputation and conduct risk

The Committee received regular reports on regulatory, reputation and conduct risk and continued to monitor ongoing regulatory change including the consultation by the Financial Conduct Authority in relation to the industry in the UK and progress on regulation in the Group's European geographies. A key area of focus was on positive customer outcomes and transparency, particularly in the UK retail market, in light of increasing uncertainty in the political and macroeconomic environment.

### Operational risk

The Committee received regular reports on key operational risks facing the business such as information security, technology, client money (UK specific) and financial crime. The Committee also oversaw improvements in the control environment with key operational risk performance indicators trending in the positive direction. The Committee reviewed the Group's operational risk appetite on an ongoing basis and this area will continue to be an area of focus in 2019.

Other principal activities of the Committee have been:

- review of the Enterprise Risk Management Framework and relevant Group policies;
- review of results of the risk management assessment process and ongoing risk reports including risk appetite;
- review of internal risk controls (further details of which are covered in the Corporate Governance Report); and
- review of the compliance programme and the compliance and risk monitoring and testing plan.

In respect of the Group's approach to risk and compliance management, the Committee also reviewed the capability, resources, remit and authority levels of the Risk and Compliance functions and is satisfied that the Risk and Compliance functions are adequately resourced and sufficiently independent with appropriate authority and standing within the Group.

## Committee focus for 2019

During 2019, the Committee's focus will continue to be on reviewing the Group's risk strategy and risk management capabilities, as well as closely monitoring any emerging risks having the potential to increase in size and affect the performance of the Group. The Committee will continue to monitor the political environment, the exit of the UK from the European Union and the global economic environment and will continue to review the Group's contingency planning designed to respond and mitigate the impact of any adverse macroeconomic conditions.

**Eric Daniels**
Chair of the Risk and Compliance Committee
7 March 2019

# Directors' remuneration report

Committee members

Cath Keers (Chair)

Andrew Learoyd (Chairman of the Board)

Ed Wray (Independent Non-Executive Director)

"Our incentives are simple: we want to build an ownership mentality among key executives, to support growth."

## Dear shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2018 covering the remuneration policy and practice for the first time as a listed company. In addition to my annual statement as Chair of the Remuneration Committee, this report contains:

- the current Directors' remuneration policy (the "Remuneration Policy"), which will be put to a binding shareholder vote at the AGM on 5 June 2019 and will apply for three years from the date of approval; and
- the Annual Report on Remuneration, which sets out payments made to the Directors and details the link between Company performance and remuneration for the year ended 31 December 2018. It also sets out how the Policy is intended to be implemented in 2019. The Annual Report on Remuneration is subject to an advisory shareholder vote at the 2019 AGM.

### Committee composition and operating rhythm

The Committee was formally established by the Board prior to the IPO in September 2018. Ed Wray and Andrew Learoyd join me as the other members of the Committee. We confirm that we have complied with the 2016 Code recommendation that the Committee comprises at least three independent Non-Executive Directors.

It is our intention to meet at least three times a year and on an ad hoc basis as needed. Although we did not meet formally prior to the IPO or in 2018, we have met three times since the year end. Given that the Executive Directors do not participate in an annual bonus plan, the main activities of the Committee will be in the early part of 2019, agreeing the performance conditions for the long-term incentive plan.

As the Remuneration Committee has only been established for a short time, we have not conducted a formal performance evaluation but we plan to do so during 2019. We will report on this in the 2019 Annual Report and Accounts.

### Role of the Committee

The Committee's primary role is to determine the remuneration of the Directors and senior leadership team of the Group and to determine the Remuneration Policy for the Executive Directors as well as monitoring and reviewing its ongoing appropriateness and relevance.

The key responsibilities of the Committee are summarised on page 52 of the Corporate Governance Report and further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our website at: corporate.fundingcircle.com.

## Overview of Remuneration Policy and progress in 2018

Funding Circle is a founder-led business. From inception, the remuneration philosophy has been to support share ownership across the business through equity incentives to encourage all Circlers to behave as owners – taking decisions for long-term value creation rather than focusing on the short term.

It is the Committee's intention to continue with that philosophy and our expectation is that key executives will continue to build significant personal shareholdings in Funding Circle through a long-term incentive plan. There is no discretionary annual bonus scheme.

The Committee has reviewed and built on the work undertaken by the Board in the lead up to the IPO. In anticipation of the IPO, the Board reviewed the remuneration framework to ensure an appropriate remuneration structure and strategy was in place and sought independent specialist advice in relation to the remuneration principles that it should apply to Directors. The Company has established a set of remuneration principles and a remuneration framework that will:

- attract, motivate and retain executives and senior management to deliver the Company's strategic goals and create long-term shareholder value;
- incentivise strong financial performance and reward the delivery of the Company's business plan and key strategic goals;
- adhere to principles of good governance and appropriate risk management; and
- align employees with the interests of shareholders and encourage widespread equity ownership across the Group.

## Focus for 2019

During 2019, the Committee's focus will be on:

- approval of performance conditions and awards under the long-term incentive plan ("LTIP"), ensuring that there is a significant proportion of long-term variable pay linked to long-term value creation and embedding simplicity and transparency in both the design and the delivery of our executive rewards;
- ensuring that executive remuneration decisions are made in the context of the broader all-employee and external climate;
- reviewing any issues raised by shareholders in relation to remuneration and the Remuneration Policy; and
- assessing the ongoing appropriateness of the remuneration arrangements in light of remuneration trends and market practice.

## Employee share ownership

Share ownership for all Circlers has always been and remains an integral part of the Group's culture and the Company operates equity incentive arrangements for all permanent employees. All Circlers contribute to the achievement of the Group's long-term success and the Board believes that extending share ownership throughout the Group enhances loyalty and engagement. A single discretionary share-based LTIP was adopted in September 2018, conditional on IPO, and the Committee approves grants to the Global Leadership Team under the LTIP and has approved the parameters pursuant to which awards are made to all other Circlers. Grants to Circlers, including the Global Leadership Team (other than the Executive Directors), vest over a period of four years but are not otherwise normally subject to performance conditions.

## 2019 AGM

At our first AGM in June 2019, shareholders will be asked to vote on the Remuneration Policy, which will remain in place for three years following the date of approval, and on the Annual Report on Remuneration. In accordance with legislative requirements, the vote on the Policy will be binding and the vote on the Annual Report on Remuneration will be advisory. I look forward to receiving your support on both resolutions.

**Cath Keers**
Chair of the Remuneration Committee
7 March 2019

# Directors' remuneration policy

The Remuneration Policy, as set out in this section, applies to the roles of Chairman, Executive Director and Non-Executive Director.

The Board believes the Remuneration Policy is appropriate to support the long-term success of the Company whilst ensuring it does not promote inappropriate risk taking.

If approved by the shareholders in a binding vote at the 2019 AGM in June, the Remuneration Policy will apply for a maximum of three years from the AGM.

## Executive Directors' remuneration

The Remuneration Policy is designed to offer competitive but not excessive remuneration structured so that there is a significant weighting towards long-term variable pay elements. Reflecting this, the Executive Directors do not participate in an annual discretionary cash bonus plan. The salary of the Executives is purposefully set at the lower end of market practice for UK companies of a similar size. The table below provides a full summary of the Remuneration Policy elements for Executive Directors. Samir Desai has confirmed that he will waive any entitlement to variable remuneration under the LTIP in respect of the 2019 award cycle.

| Element of remuneration | Key features | Purpose and link to strategy | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| Salary | Reviewed annually in March.<br>Salaries take account of external market and the overall employee context. | Supports the attraction and retention of the best talent. | No prescribed maximum salary level or salary increases.<br>Account will be taken of increases applied to employees as a whole when determining salary increases.<br>Committee retains the discretion to award higher increases where it considers it appropriate, especially where salary at outset has been set at a relatively low level. | n/a |
| Allowances and benefits | Executive Directors are entitled to the following benefits:<br>- life assurance; and<br>- private medical insurance.<br>The Committee may determine that Executive Directors should receive additional reasonable benefits if appropriate, taking into account typical market practice and practice throughout the Group. | Market competitive (and cost effective) benefits provide reassurance and risk mitigation and support retention of talent. | The value of benefits is not capped as it is determined by the cost to the Company, which may vary. | n/a |
| Pension | Directors are entitled to receive employer contributions to the Funding Circle Ltd defined contribution pension plan (although the CEO has waived his right to receive this contribution as set out below). | To provide retirement benefits for Executives. | Maximum contribution in line with contribution to other employees in the Group, currently 2% of salary, increasing to 3% in April 2019. | n/a |
| Bonus | Executive Directors do not currently participate in a discretionary annual cash bonus plan and Funding Circle does not have an all-employee discretionary cash bonus plan. | Our policy is to place greater emphasis on long-term variable pay elements. Incentives are awarded under the LTIP. | n/a | n/a |

## Executive Directors' remuneration continued

| Element of remuneration | Key features | Purpose and link to strategy | Maximum opportunity | Performance measures |
|---|---|---|---|---|
| LTIP | Executive Directors are granted awards under the LTIP (described in more detail below).<br><br>Awards may be made as conditional share awards or nil-cost options as considered appropriate.<br><br>Awards will be performance shares with a three-year performance period.<br><br>Following the end of the performance period and on termination of employment, shares will be subject to a holding period of two years.<br><br>The Executives may, at the discretion of the Committee, receive dividend equivalents on vested shares.<br><br>The Committee may adjust and amend awards in accordance with the LTIP rules.<br><br>Malus and clawback may be applied in exceptional circumstances. | Rewards long-term sustainable performance, in line with Funding Circle's strategy.<br><br>Focuses executives on delivering outstanding value creation for shareholders. | Derived from the median of maximum total direct compensation for FTSE 250 companies (other than the top 50 companies to ensure peer size is relevant). For2019, these awards would be £1.98 million for the CEO and £1.12 million for the CFO. | Annual revenue growth and average annual EPS over three years. Vesting governed by performance on both measures using simple matrix. Vesting on basis of a single measure can occur at performance above Threshold on one measure.<br><br>No awards will vest unless the share price at the end of the performance period also exceeds the IPO price of 440 pence.<br><br>The Committee retains certain discretions, in line with market practice, in relation to the operation and administration of the plan as further described below. |
| Shareholding requirement | Executive Directors are expected to build and maintain a holding of shares in the Company. | Supports our ownership mentality focus, promotes stewardship and helps align management with shareholders. | Minimum shareholding requirement, to be satisfied within five years of appointment, of no less than 200% of salary for all Executive Directors. If any Executive Director does not meet the requirement, they will be expected to retain all of the net of tax number of shares vesting under any of the Company's discretionary share incentive arrangements until the requirement is met. | n/a |

## Long-term incentive plan

### Plan operation

Beginning in 2019, Funding Circle's policy will be to make LTIP Awards to its Executive Directors. These awards are designed to incentivise Executive Directors over the longer term, and to deliver performance-related pay, with a clear line of sight for executives and direct alignment with shareholders' interests.

Awards under the LTIP will be nil-cost options with a three-year performance period. After the performance period has ended, awards will be subject to a two-year holding period, as is consistent with common market practice. Vesting will be contingent upon performance against the chosen measures: revenue growth and earnings per share ("EPS").

### LTIP performance measure selection and target calibration

The Committee believes that using a combination of revenue growth and EPS performance, together with an underpin of the IPO share price, to govern the vesting of Funding Circle's LTIP is the best way to balance our performance objectives and align our incentives with the Company's strategic priorities. These measures have been selected over the inclusion of total shareholder returns to ensure that the Executives focus on the two key areas of performance that we believe will drive shareholder value. Vesting of LTIP Awards is subject to the achievement of stretching goals over a three-year vesting period. Goals for vesting of awards have been set using several sources, including internal plans, IPO guidance and analysts' expectations and each measure is independent of the other, weighted revenue growth: EPS 55:45. The table below shows how the two measures will be applied together, in a simple vesting matrix arrangement.

### LTIP payout matrix

Revenue growth

Per annum over three years based off 2018

% of award vesting (Earnings per share for the year 2021)

| Revenue growth | Performance level | Below Threshold | Threshold: Above (1.1p) | On target: Positive | Stretch: Above 1.6p |
|---|---|---|---|---|---|
| At and above 50% | Stretch | 55% | 66.3% | 77.5% | 100% |
| At and above 40% | On target | 27.5% | 38.8% | 50% | 72.5% |
| At and above 30% | Threshold | 13.8% | 25% | 36.3% | 58.8% |
| Below 30% | Below Threshold | – | 11.3% | 22.5% | 45% |

Notes:
For performance outcomes between these points, vesting will be determined on a straight-line interpolation basis.

There will be no vesting if performance on both measures is below Threshold. There will be no vesting unless the share price at the end of the performance period also exceeds the IPO price of 440 pence.

#### Why are the measures used in a matrix arrangement?

The matrix reflects the natural and beneficial tension between growth and returns, and is a simple, flexible yet effective way of making the appropriate tradeoffs inherent in our growth strategy. Executives must achieve an appropriate balance between both growth and delivery of earnings in order to earn their vested awards, and those awards will – in turn – be worth more as underlying performance and growth drive shareholder value. If performance on a single measure is above Threshold, while the other is not, vesting is restricted and applies to the former only.

#### How have Threshold, On-Target and Stretch goals been calibrated?

The Committee has set challenging performance goals for the various levels of vesting after careful consideration of relevant reference points including analyst expectations, IPO guidance and internal projections. The table below lists the specific reference points and rationales that were used to set each performance goal:

| Measure | Performance Level | | Reference points/Rationale used |
|---|---|---|---|
| **Revenue Growth** (CAGR% over 3 years) | ≥50% | Stretch | Analyst consensus plus c.10% points |
| | ≥40% | On target | Analyst consensus average |
| | ≥30% | Threshold | Analyst consensus less c.10% points |
| **Earnings per Share** (Annual average, 2021) | Above 1.6p | Stretch | Above derived analyst range |
| | Positive | On target | Consistent with target of profitability over growth focus |
| | Above (1.1p) | Threshold | Lower end of derived analyst range |

We gave detailed consideration to analyst expectations, referring to the latest available forecasts as at December 2018. Using 2018 as the base year for growth, consensus projections for 2021 guided the setting of the on-target goal for Revenue Growth. Setting the on-target goal according to average analyst expectations signals to all that 'expected incentives' will be paid for delivering 'expected performance'. We believe this is fair.

However, there is no doubt the revenue growth objectives are exciting but remain challenging. Achieving the analyst consensus revenue growth merely triggers a Target, not a Maximum vesting of the shares. The Stretch or Maximum target which would trigger a 100% vesting is higher again. Maximum is c.10% points above average Consensus and Threshold (the point at which any vesting occurs at all) is c.10% points below the average Consensus.

The Committee believes that the performance range between Threshold and Stretch around the on-target goal, guided by analyst estimates, is appropriate, challenging and robust given a range of market conditions.

Funding Circle's EPS goals were calibrated in a similar way to the approach adopted for our revenue goals. We used analyst estimates and forward forecasts, although analyst models for forecasting EPS lack some detail. Specifically, the on-target goal of "Positive EPS" is consistent with the "Growth strategy". EPS goals have been set after accounting for expected annual dilution.

## Long-term incentive plan continued

### How has the impact of new accounting standards (specifically IFRS 16) been reflected?

Funding Circle will adopt IFRS 16 in 2019, which will result in restated financial figures. This is expected to have minimal impact on revenue and EPS so the proposed goals do not require adjustment. However, it is possible that future accounting standard changes may have a larger impact, and the scheme rules allow for retrospective adjustments to LTIP targets in this circumstance.

### How the matrix works for LTIP payouts

The vesting of LTIP Awards in three years' time will be based on the matrix shown above. By way of illustration, if Target (positive) EPS is achieved at the same time that revenues grow 40% annually, 50% of the shares vest. This reflects the underlying difficulty of achieving these two challenging goals simultaneously. If, instead, EPS is only (-1.1 pence) and revenue growth is no better than 30% (the threshold level of performance required for any awards to vest during this three-year period) then a 13.8% payout will be awarded.

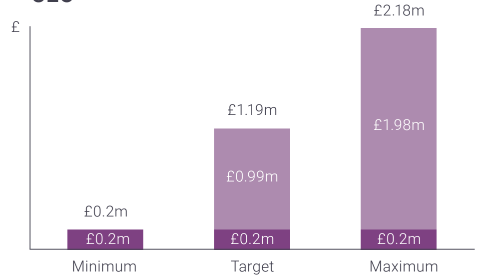
As EPS and revenue growth achievements vary, so does vesting, as reflected in the matrix. If we have achieved our stretch EPS goal (+1.6 pence), for example, then improved revenue growth increases vesting from 58.8% (Threshold revenue growth) to 72.5% (Target revenue growth), and eventually to 100% (Stretch revenue growth). This demonstrates the importance of growth to us over this three-year period.

In turn, if the EPS is at Threshold (above -1.1 pence), then improvements in revenue growth will increase the vesting from 25% (Threshold revenue growth) to 38.8% (Target revenue growth), and eventually to 66.3% (Stretch revenue growth). This again underlines the importance of growth to us over this three-year period.

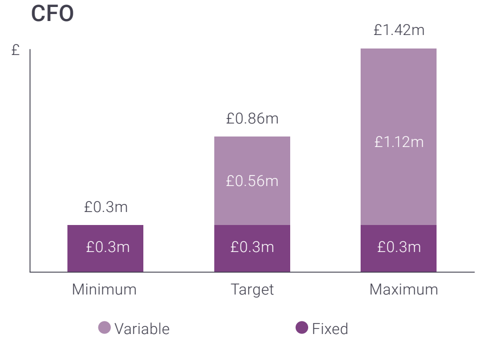
The maximum payout of 100% vesting will only occur if both the revenue growth and EPS stretch goals are met. The maximum LTIP grant cannot exceed the median of the maximum total direct compensation of our tailored peer group used for market benchmarking purposes (less base pay).

### Illustrations of the application of the Remuneration Policy

CEO




CFO




## Legacy Arrangements

Executive Directors may be eligible to receive relevant payments from any award made prior to the approval of the Remuneration Policy (such as the vesting of share awards made prior to the IPO or prior to the appointment of an individual to the Board). Details of any such payments will be set out in the Annual Report on Remuneration as they arise. For example, as further explained in note 4 to the single total figure of remuneration table on page 74 of this Report, the Executive Directors were awarded unapproved share options in June 2018 (the "Pre IPO Exec Grants") which continue to vest following the IPO.

## Malus and clawback policy

All LTIP awards and the Pre IPO Exec Grants are subject to malus and clawback provisions. In certain circumstances the Board may at any time prior to the fifth anniversary of the grant date of an LTIP Award reduce the LTIP Award (to zero if appropriate) or impose additional conditions on the LTIP Award to the extent that cash and/or Shares have not yet been delivered in satisfaction of the LTIP Award; or if cash and/or Shares have been delivered in satisfaction of the LTIP Award, require that the participant either returns some or all of the Shares acquired pursuant to the LTIP Award or make a cash payment to the Company in respect of the cash or Shares delivered.

The Board will retain the discretion to calculate the amount subject to recovery, including whether or not to claw back such amount gross or net of any tax or social security contributions applicable to the LTIP Award.

The Board may invoke these malus and clawback provisions where, during the period beginning on the grant date (or, where an LTIP Award is subject to a performance condition, at the start of the performance period) and ending on the fifth anniversary of the grant date, there has been:

- a material misstatement of the audited accounts of a member of the Group;
- an error in assessing a performance condition applicable to an LTIP Award or in the information or assumptions on which the LTIP Award was granted, vests or is released;
- a material failure of risk management in any member of the Group or a relevant business unit;
- serious reputational damage to any member of the Group or a relevant business unit; or
- serious misconduct or material error on the part of the participant.

## Discretions reserved in operating incentive plans

The Committee will operate the LTIP in accordance with its rules and the above Remuneration Policy table. The Committee retains certain discretions, consistent with market practice, in relation to the operation and administration of the plan including:

- the determination of performance measures and targets and resultant vesting and payout levels;
- the ability to amend or substitute a performance condition if one or more events occur which cause the Committee to reasonably consider that an amended or substituted performance condition would be more appropriate and would not be materially less difficult to satisfy than originally intended;
- the determination of the treatment of individuals who leave employment, based on the rules of the LTIP, and the treatment of the awards on exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing awards in certain circumstances (e.g. rights issues or corporate restructurings).

## Executive Directors' service contracts

The CEO entered into a new service contract in September 2018. The CFO entered into his service contract in July 2017 and this contract did not change on IPO. The Executive Directors' contracts are terminable by either the employer or the individual on 12 months' notice for the CEO and six months' notice for the CFO.

Executive Directors are eligible to receive a contribution to the Funding Circle Ltd defined contribution pension scheme. Currently, contributions are set to 2% of base salary per annum in line with the contribution made to other Funding Circle employees. The CEO has waived his right to any pension contribution. Executive Directors also receive private healthcare and life assurance. Executive Directors are also entitled to reimbursement of all travelling, hotel, entertainment and other expenses incurred in the proper performance of their respective duties.

## Cessation of Employment

**Unvested LTIP Awards:** Ordinarily unvested LTIP Awards will lapse upon a participant ceasing to be employed by or hold office with the Group ("Group Employment").

Unless the participant is dismissed for cause, the Committee will have the discretion to allow any unvested LTIP Award to continue until the date when it would have normally have been released if the participant had not ceased Group Employment. The Committee retains discretion, however, to allow the LTIP Award to vest and be released earlier when the participant ceases Group Employment, or some other time. The extent (if at all) to which an LTIP Award vests in these circumstances will be determined by the Committee, taking into account the satisfaction of the performance conditions applicable to the LTIP Award measured over the original performance period (or to such earlier point, if the LTIP Award is to be released at an earlier date) and such other factors as the Committee consider relevant and, unless the Committee decides otherwise, the proportion of the performance period which has elapsed on cessation of Group Employment.

If a participant dies, unless the Committee decides otherwise, their LTIP Award will vest (and be released) as soon as reasonably practicable after the date of death taking into account any applicable performance conditions measured up to that point and, unless the Committee decides otherwise, the proportion of the performance period which has elapsed.

LTIP Options may normally be exercised to the extent vested for a period of six months after release or 12 months after death (or such other period as the Committee may determine).

**Vested LTIP Awards:** If a participant ceases Group Employment during the holding period of a vested LTIP Award, their LTIP Award will normally be released at the end of the holding period, unless the Committee determines that it should be released as soon as reasonably practicable after the cessation of Group Employment. However if the participant is dismissed as a result of gross misconduct, the vested LTIP Award will lapse. If a participant dies during the holding period, their LTIP Award will be released as soon as reasonably practicable after the date of death.

Where LTIP Options have already vested and been released on the date of cessation of Group Employment, those LTIP Options may normally be exercised for a period of six months from the date of cessation. If a participant dies, a vested LTIP Option may normally be exercised until the first anniversary of the death.

**Pre-IPO Awards:** All pre-IPO awards lapse in the event of dismissal for cause or other disciplinary reasons (as determined by the discretion of the Committee). Subject to this, unvested pre-IPO awards lapse unless the Committee exercises its discretion to permit exercise on terms it determines. Vested pre-IPO awards may be exercised at any time until the tenth anniversary of the date of grant.

An Executive Director's employment may be terminated by payment in lieu of notice, equal to the basic salary that would have been payable. The employer may in its discretion determine that the payment in lieu will be paid in monthly instalments over the notice period and subject to reduction if the Executive Director receives income from an alternative employment or engagement. Discretion to make a payment in lieu of notice will not be exercised if notice of termination of the CEO's employment is given or received in circumstances where he is determined to be a "good leaver" under the Company's employee share plans.

# Directors' remuneration policy continued

## Change of Control Policy

In the event of a change of control of the Company, LTIP Awards will vest (and be released) early. The proportion of any unvested LTIP Awards which vest will be determined by the Board, taking into account the extent to which performance conditions have been satisfied at that time and such other factors as the Board considers relevant and, unless the Board determines otherwise, the proportion of the performance period which has elapsed. LTIP Options will normally be exercisable for one month following the change of control, after which time they will lapse. Alternatively, the Board may permit LTIP Awards to be exchanged for equivalent awards of shares in a different company (including the acquiring company). If the change of control is an internal reorganisation of the Group (or if the Board so decides), participants may be required to exchange their LTIP Awards.

In respect of pre-IPO awards, the Company has agreed that additional protection will apply in the event of a termination of their employment or engagement in anticipation of, upon or within 12 months following a change of control of the Company, where such termination is deemed to be connected with the change of control. In those circumstances, the relevant individual will be entitled to receive a cash payment or other form of award (the "replacement award") which vests upon the termination of their employment. The value of the replacement award will be determined by reference to the portion of the participant's unvested pre-IPO awards that would have vested (but for the change of control) over the period of 24 months following the change of control or, if later, the 24 months following their termination. The agreed provisions are subject to the Company's discretion to determine that a greater number of Shares subject to a pre-IPO award should vest upon a change of control.

## Shareholding requirements

The Committee recognises the importance of aligning Executive Directors and shareholders' interests through significant shareholdings in the group. The Executive Directors are expected to build up a shareholding of equivalent value to 200% of their base salary. All of the after-tax number of vested LTIP shares vested under any of the Company's discretionary share incentive arrangements must be retained towards satisfaction of this requirement, which is expected to be met within five years of its introduction (subject to personal circumstances). The extent to which the shareholding requirements have been met by the Executive Directors is detailed on page 75.

## Recruitment policy

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment of high calibre executives to strengthen the management team and secure the skill sets necessary to deliver the Group's strategic aims. While the Committee will seek to align a new Executive Director's remuneration package to the Company's Remuneration Policy as set out above, there will inevitably be differences particularly in relation to base pay for new Executives who are not already significant shareholders.

For an internal appointment, any legacy arrangements will either continue on their original terms or be adjusted to reflect the new appointment, as appropriate.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate in the year of appointment and for a further two years.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer if it considers the cost can be justified and it is in the best interests of the Company. Buy out awards are not subject to a formal cap. The Committee will seek to make buy outs subject to what are, in its opinion, comparable requirements in terms of service and performance.

## Policy on external appointments

Executive Directors may hold external directorships and retain any fees for such directorships if the Board determines that such appointments do not cause any conflict of interest.

## Other considerations

Pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration.

The Committee receives regular updates on overall pay and conditions in the Group.

The Committee considers it is important for all employees to have the opportunity to become shareholders in the Company and currently all employees are eligible to participate in the LTIP. Awards made to employees other than the Executive Directors are not generally subject to performance conditions.

The Company did not consult with employees in preparing this Remuneration Report.

The Committee understands the importance of listening to the views of the Company's shareholders and takes account of the guidelines of investor bodies and shareholder views in determining the remuneration arrangements in operation within the Group. The Chair of the Committee consulted with the Company's major shareholders during the development of the Policy set out above and in preparing this Remuneration Report.

# Annual report on remuneration

## Non-Executive Directors' remuneration

| Element of remuneration | Key features | Purpose and link to strategy | Maximum opportunity |
|---|---|---|---|
| Fees | The fees paid to the Non-Executive Directors are determined by the Board as a whole. The Chairman and the Non-Executive Directors are paid annual fees and do not participate in any of the Company's post-IPO incentive arrangements or receive any pension provision or other benefits.<br><br>Additional fees are payable for acting as Senior Independent Directors and for chairing the Audit Committee, Risk and Compliance Committee and Remuneration Committee. Additional fees are also payable if a Non-Executive Director serves on multiple Committees.<br><br>The Non-Executive Directors are not entitled to any compensation on termination of their appointment.<br><br>The Non-Executive Directors are entitled to reimbursement of reasonable expenses. | Fees are set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its Committees and to attract and retain Non-Executive Directors of the highest calibre with relevant commercial and other experience. | n/a |

As an early stage private company, which did not pay Directors' fees, the Company has historically granted options to certain Non-Executive Directors under the Company's pre-IPO share option plan. Although the options granted will continue to vest and be held by those Non-Executive Directors going forwards, no further options will be granted to Non-Executive Directors under any of the Company's share option plans.

Cath Keers and Geeta Gopalan both received an additional fee on appointment as Director. Cath Keers received a pre-admission fee of £100,000 in September and Geeta Gopalan received a fee of £100,000 on joining the Board in November, in both cases to reflect additional work done in advance of their appointment. It was a condition of this additional fee that the post-tax amount be used to acquire shares in the Company.

## Letters of appointment

All Non-Executive Directors have letters of appointment with the Company. The appointments of each of the Non-Executive Directors are for an initial term of three years from March 2018 for Cath Keers, November 2018 for Geeta Gopalan and September 2018 for all other Non-Executive Directors, unless terminated earlier by either party on one month's notice. The appointment of each Non-Executive Director is also subject to re-election when appropriate by the Company in general meeting.

## Recruitment policy

In recruiting a new Non-Executive Director, the Committee will use the policy set out in the table above.

# Annual report on remuneration continued

This part of the report sets out how the Remuneration Policy has been applied since the IPO and how the Committee intends to apply the Remuneration Policy going forward. An advisory shareholder resolution to approve this report will be proposed at the AGM. We also give details about the Directors' share interests and some further details about the Committee.

## Single total figure of remuneration (audited)

The following tables set out the aggregate emoluments earned by the Directors in the years ended 31 December 2018 and 2017 respectively.

| 2018 | Salary and fees £000 | Taxable benefits[1] £000 | Bonus £000 | Pensions[3] £000 | Long-term incentives[4] £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Samir Desai | 210 | 1 | – | – | 3,870 | 4,081 |
| Sean Glithero | 300 | – | – | 5 | 777 | 1,082 |
| **Non-Executive Directors** | | | | | | |
| Andrew Learoyd | 50 | – | – | – | – | 50 |
| Ed Wray | 16 | – | – | – | – | 16 |
| Eric Daniels | 16 | 20 | – | – | – | 36 |
| Bob Steel | 16 | – | – | – | – | 16 |
| Cath Keers[2, 6] | 154 | 2 | – | – | – | 156 |
| Geeta Gopalan[2, 7] | 111 | – | – | – | – | 111 |
| Hendrik Nelis[5] | – | – | – | – | – | – |
| Neil Rimer[5] | – | – | – | – | – | – |

1. For Executive Directors, benefits correspond to the taxable value of benefits received during the relevant financial year and principally include private medical cover and life assurance cover. Taxable benefits for Non-Executive Directors relate to reimbursement of travel to the workplace. Certain Non-Executive Directors' expenses have been classified as taxable benefits. In such cases, the Company will ensure that the Director is kept whole by settling the expense and any related tax. The figures shown include the cost of the taxable benefit plus the related tax charge.
2. Cath Keers received a pre-admission fee of £100,000 in September and Geeta Gopalan received a fee of £100,000 on joining the Board in November, in both cases to reflect additional work done in advance of their appointment. It was a condition of this additional fee that the post-tax amount be used to acquire shares in the Company.
3. Executive Directors are entitled to 2% of base salary as pension contribution. The CEO has waived his right to the pension contribution.
4. The Executive Directors were awarded unapproved share options in June 2018 prior to IPO under the pre-IPO share plan ("Pre-IPO Exec Options"). The Pre-IPO Exec Options are short-term incentives, having no performance conditions other than continued employment and vesting over a five-year period, with the first 25% vesting on 1 June 2020. All of the options were unvested at 31 December 2018. The number in the table above for the value of the Pre-IPO Exec Options is calculated on the basis of the fair market value on grant of £1.80. In addition to the above, as set out in the table of Directors' vested and unvested share awards, on IPO the vested and unvested ESS and growth shares that were granted in previous years were converted into ordinary shares. The unvested portion is held by the trustee of the Company's employee benefit trust and continues to vest on the same vesting dates as before. Immediately prior to IPO, Samir Desai held 3,845,968 vested and 2,237,532 unvested shares and Sean Glithero held 216,763 vested and 650,290 unvested shares. The offer price at IPO was £4.40.
5. Hendrik Nelis and Neil Rimer, who are not independent Non-Executives, have waived their entitlement to a fee.
6. Appointed 10 May 2018.
7. Appointed 1 November 2018.

| 2017 | Salary and fees £000 | Taxable benefits[1] £000 | Bonus £000 | Pensions[2] £000 | Long-term incentives £000 | Total £000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Samir Desai | 202 | — | — | 2 | — | 204 |
| Sean Glithero | 75 | — | — | 1 | — | 76 |
| **Non-Executive Directors[3]** | | | | | | |
| Andrew Learoyd | — | — | — | — | — | — |
| Ed Wray | — | — | — | — | — | — |
| Eric Daniels | — | — | — | — | — | — |
| Bob Steel | — | — | — | — | — | — |
| Hendrik Nelis | — | — | — | — | — | — |
| Neil Rimer | — | — | — | — | — | — |

1. For Executive Directors, benefits correspond to the taxable value of benefits received during the relevant financial year and principally include private medical cover and life assurance cover. Taxable benefits for Non-Executive Directors relate to reimbursement of travel to workplace.
2. Executive Directors were entitled to 1% of base salary as pension contribution.
3. No Non-Executive Directors were paid a fee in 2017.

Awards granted to the Executive Directors prior to the IPO continued to vest over time but there were no long-term incentives awarded or eligible to vest in respect of performance for the financial periods to 31 December 2017 or 31 December 2018.

None of the Directors had a prospective entitlement to a defined benefit pension plan.

## Directors' shareholding and share interests (audited)

Table of Directors' share interests as at 31 December 2018

| | Beneficially owned shares[1,2] | Vested awards | Unvested awards | Total |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Samir Desai | 14,207,345 | — | 4,044,813 | 18,252,158 |
| Sean Glithero | 162,573 | — | 1,082,140 | 1,244,713 |
| **Non-Executive Directors** | | | | |
| Andrew Learoyd | 1,642,888 | 87,500 | 12,500 | 1,742,888 |
| Ed Wray | 1,543,538 | 658,900 | 12,500 | 2,214,938 |
| Eric Daniels | — | 324,610 | 58,594 | 383,204 |
| Bob Steel | 614,754 | 337,500 | 12,500 | 964,754 |
| Cath Keers | 12,045 | — | — | 12,045 |
| Geeta Gopalan | 13,216 | — | — | 13,216 |
| Hendrik Nelis | — | — | — | — |
| Neil Rimer | — | — | — | — |

1. Includes shares owned by connected persons. This does not include shares held by Samir Desai's father (which were included in his stated shareholding for the purposes of the Company's prospectus in September 2018).
2. Vested growth and ESS shares are treated as legally owned shares.

The Company's share ownership requirements are that Executive Directors shall (subject to personal circumstance) build and maintain a shareholding equivalent to at least 200% of salary over five years. At the 2018 year end the CEO complied with this requirement. The CFO was appointed to the Board on 28 November 2017 and currently holds vested shares equal to 94% of two times salary, calculated on 19 February 2019 when the share price was £3.48. Unvested awards are not taken into account. The shares are subject to a lock up arrangement which expires on close of business 3 October 2019.

## Table of Directors' vested and unvested share awards (audited)

| | Award type[1] | No. of awards at 31 December 2017 | Awards granted in the year | Awards lapsed in the year |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| Samir Desai | | | | |
| Vested | Growth | 562,500 | – | – |
| | ESS | 2,083,437 | – | – |
| | Growth | – | – | – |
| Unvested | Growth | 37,500 | – | – |
| | ESS | 1,250,063 | – | – |
| | Growth | 2,150,000 | – | – |
| | Unapproved | – | 2,150,000 | – |
| Sean Glithero | | | | |
| Vested | Growth | – | – | – |
| Unvested | Growth | 867,053 | – | – |
| | Unapproved | – | 431,850 | – |
| **Non-Executive Directors** | | | | |
| Andrew Learoyd | | | | |
| Vested | Unapproved | 62,500 | – | – |
| Unvested | Unapproved | 37,500 | – | – |
| Ed Wray | | | | |
| Vested | Unapproved | 571,400 | – | – |
| | Unapproved | 62,500 | – | – |
| Unvested | Unapproved | 37,500 | – | – |
| Eric Daniels | | | | |
| Vested | Unapproved | 300,000 | – | – |
| | Unapproved | 82,031 | – | – |
| Unvested | Unapproved | 105,469 | – | – |
| Bob Steel | | | | |
| Vested | Unapproved | 203,125 | – | – |
| | Unapproved | 62,500 | – | – |
| Unvested | Unapproved | 46,875 | – | – |
| | Unapproved | 37,500 | – | – |

1. Historically there have been two different types of awards granted to Executive Directors: conditional shares (referred to in the table above as "ESS" and "Growth") and unapproved options (referred to in the table above as "Unapproved"). Other than in certain circumstances as set out on page 72 (e.g. on termination of employment or change of control), unapproved options can be exercised during a period of 10 years from the date of grant.

2. The conditional shares (ESS and Growth) were not exercised but converted to ordinary shares on IPO as explained on page 74 and were sold.

| Awards vested in the year | Awards exercised in the year[2] | No. of awards at 31 December 2018 | Date of grant/vesting commence | Exercise price/ subscription price | Market price on exercise |
|---|---|---|---|---|---|
| 37,500 | – | 600,000 | 10/03/2014 | £0.00 | n/a |
| 833,375 | (2,708,468) | 208,344 | 18/06/2015 | £0.00 | £4.40 |
| 671,875 | – | 671,875 | 01/08/2017 | £0.02 | n/a |
| (37,500) | – | – | 10/03/2014 | £0.00 | n/a |
| (833,375) | – | 416,688 | 18/06/2015 | £0.00 | n/a |
| (671,875) | – | 1,478,125 | 01/08/2017 | £0.02 | n/a |
| – | – | 2,150,000 | 13/06/2018 | £0.00 | n/a |
| 216,763 | (54,190) | 162,573 | 01/10/2017 | £0.02 | £4.40 |
| (216,763) | – | 650,290 | 01/10/2017 | £0.02 | n/a |
| – | – | 431,850 | 13/06/2018 | £0.00 | n/a |
| 25,000 | – | 87,500 | 18/06/2015 | £0.32 | n/a |
| (25,000) | – | 12,500 | 18/06/2015 | £0.32 | n/a |
| – | – | 571,400 | 19/08/2011 | £0.03 | n/a |
| 25,000 | – | 87,500 | 18/06/2015 | £0.32 | n/a |
| (25,000) | – | 12,500 | 18/06/2015 | £0.32 | n/a |
| – | (104,296) | 195,704 | 22/04/2013 | £0.03 | £4.40 |
| 46,875 | – | 128,906 | 01/03/2016 | £0.39 | n/a |
| (46,875) | – | 58,594 | 01/03/2016 | £0.39 | n/a |
| 46,875 | – | 250,000 | 15/07/2014 | £0.21 | n/a |
| 25,000 | – | 87,500 | 18/06/2015 | £0.35 | n/a |
| (46,875) | – | – | 15/07/2014 | £0.21 | n/a |
| (25,000) | – | 12,500 | 18/06/2015 | £0.35 | n/a |

## Payments for loss of office

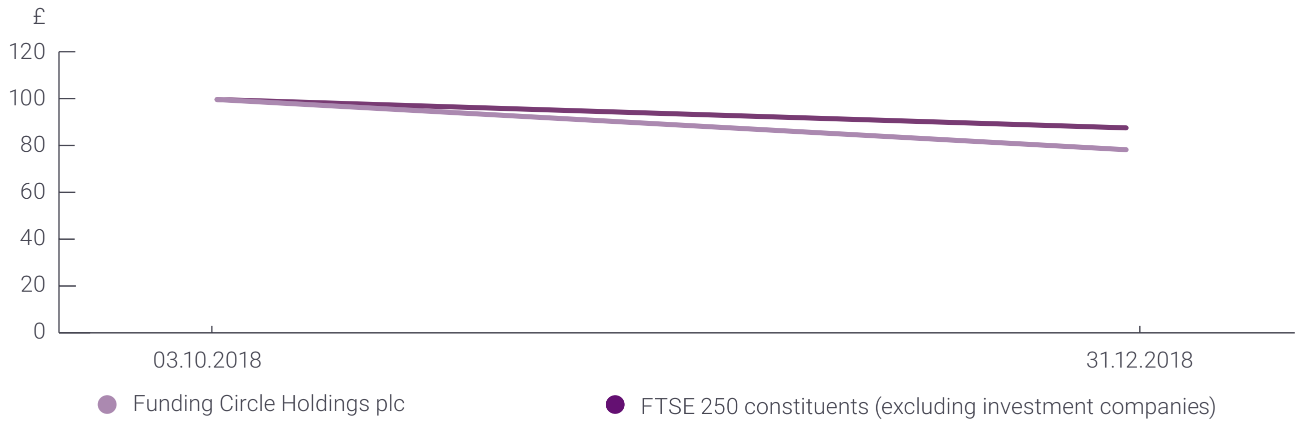
There were no payments for loss of office during the year.

## Payments to former Directors

There were no payments made to former Directors during the year.

## Performance graph and CEO remuneration table

The chart below illustrates the Company's TSR performance compared with that of the FTSE 250 Index (excluding investment companies), which Funding Circle became a constituent of on 24 December 2018. The graph shows the value of £100 invested in Funding Circle at the IPO offer price of £4.40 per share on 3 October 2018 compared with the value of £100 invested in the FTSE 250 Index (excluding investment companies).




The table below sets out the CEO's single figure of total remuneration.

| £000 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| CEO total remuneration[1,2] | 4,081 | 204 | 160 | 160 | 147 |

1. Prior to IPO, share options awarded to the CEO did not have performance conditions and therefore the vested number of shares equals the maximum number of shares that could have been received.
2. The CEO received no bonus during the five-year period.

## Percentage change in CEO remuneration compared with employees

The table below shows the average increase in each component between the CEO and the average employee in the Company from 2017 to 2018.

| | Change in remuneration levels | |
|---|---|---|
| | CEO | Average employee |
| Salary | 4% | 4% |
| Benefits | — | — |

No bonus was paid to the CEO in 2017 or 2018.

## Relative importance of spend on pay

The table below sets out relative importance of spend on pay. There have been no dividends paid to date.

Revenue and adjusted EBITDA have been presented as these are two key performance measures used by the Directors in assessing performance.

| | 2018 £m | 2017 £m | % change |
|---|---|---|---|
| Revenue | 141.9 | 94.5 | 50% |
| Adjusted EBITDA | (28.5) | (25.1) | 14% |
| Employee costs (see note 7) | 84.8 | 60.5 | 40% |
| Average number of employees | 954 | 719 | 33% |

## Fees for the Chairman and Non-Executive Directors

The fees payable to the Non-Executive Directors following the IPO and for 2019 are as set out below:

| | |
|---|---|
| Chairman | £200,000 |
| Non-Executive Director base fee | £55,000 |
| Committee Chairman fees (other than the Nomination Committee) | £10,000 |
| Senior Independent Director fee | £10,000 |

In addition to the above fees, Ed Wray receives £10,000 for his involvement on multiple Committees.

## Implementation of the Remuneration Policy for the year ended 31 December 2019

The table below shows the salaries for the Executive Directors as at 1 January 2019 in comparison to base salary as at 1 January 2018.

| £000 | 1 Jan 2019 | 1 Jan 2018 | % change |
|---|---|---|---|
| Samir Desai | 210 | 202 | 4% |
| Sean Glithero | 300 | 300 | – |

The CFO will continue to receive a pension contribution currently equal to 2% of base salary. This will increase to 3% of base salary from 6 April 2019 in line with contributions for other employees. The CEO will continue to waive his right to this pension contribution.

Salaries for Executive Directors are reviewed each year taking into account the Remuneration Policy set out in this report.

LTIP performance measures are set to be stretching and achievable as further described on page 68.

## 2018 Non-Executive Director remuneration

It has been determined that the Non-Executive Director fees will remain as set out in the table above.

## External advisers

During the year ended 31 December 2018, the Committee received advice from Pearl Meyer, who were appointed by the Committee in November 2018 following a review process. Deloitte also provided advice on remuneration and benchmarking to the Company in advance of the IPO. The Committee is satisfied that the advice it has received is independent and that the Pearl Meyer and Deloitte engagement partners and teams that have provided remuneration advice do not have connections with the Company that might impair their independence. The fees paid to Deloitte and Pearl Meyer in 2018 in relation to advice provided to the Committee (or to the Company in advance of the IPO) were agreed by the Company in advance for specific projects and were £130,000 and £20,000 respectively.

This report has been prepared in accordance with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in 2013) and the UKLA's Listing Rules.

# Report of the Directors

for the year ended 31 December 2018

The Directors present their report (the "Directors' Report") and the Annual Report and Accounts for the year ended 31 December 2018.

During the year the Company changed its name from Funding Circle Holdings Limited to Funding Circle Holdings plc.

Information required to be part of the Directors' Report either by statute or by Listing Rule 9.8 can be found either in this section or elsewhere in this document, as indicated in the table below. All information located elsewhere in this document is incorporated into this Directors' Report by reference:

| Section of Annual Report | Page reference |
|---|---|
| **Information required by LR9.8** | |
| Statement of corporate governance | Corporate Governance Statement (page 46) |
| Going concern | Risk Management (page 45) |
| Directors' interests | Remuneration Report (page 75) |
| Long-term incentive schemes | Remuneration Report (pages 68 to 70) |
| Powers for the Company to buy back its shares | Directors' Report (page 81) |
| Allotment of shares during the year | Note 18 to the financial statements |
| Significant shareholders | Directors' Report (page 82) |
| Related party agreements | Note 26 to the financial statements |
| **Statutory information** | |
| Employee involvement | Strategic Report – our people (page 27) |
| Policy concerning the employment of disabled persons | Strategic Report – our people (page 27) |
| Financial instruments | Note 2 to the financial statements |
| Future developments of the business | Strategic Report (pages 5 to 23) |
| Greenhouse gas emissions | Strategic Report – corporate social responsibility (page 29) |
| Significant agreements | Directors' Report (page 82) |
| Non-financial reporting | Strategic Report – see below |

## Management Report

This Directors' Report, together with the Strategic Report on pages 1 to 45, forms the Management Report for the purposes of DTR 4.1.5R.

## Strategic Report

Section 414A of the Companies Act 2006 (the "Act") requires the Directors to present a Strategic Report in the Annual Report and Accounts. The information can be found on pages 1 to 45.

The Company has chosen, in accordance with Section 414C (11) of the Act and as noted in this Directors' Report, to include certain matters in its Strategic Report that would otherwise be disclosed in this Directors' Report.

Section 414C of the Act requires the Company to include within its Strategic Report a non-financial statement setting out such information as is required by Section 414CB of the Act. Such information is set out in the our people section on pages 24 to 27, the corporate social responsibility section on pages 28 and 29, in the Business Model and Risk Profile sections on pages 10 to 23 and in the Risk Management and Going Concern and Viability Statement sections on pages 36 to 45.

## Directors

The Directors of the Company during the year and for the period up to the date of this report were:

Andrew Learoyd (Chair)
Samir Desai CBE (co-founder, Chief Executive Officer)
Sean Glithero (Chief Financial Officer)
Eric Daniels (Independent Non-Executive Director)
Geeta Gopalan – appointed 1 November 2018 (Independent Non-Executive Director)
Cath Keers – appointed 10 May 2018 (Independent Non-Executive Director)
Bob Steel (Senior Independent Director)
Ed Wray (Independent Non-Executive Director)
Hendrik Nelis (Non-Executive Director)
Neil Rimer (Non-Executive Director)

## Insurance and indemnities

The Company maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries. In addition the Company indemnifies each Director under a qualifying indemnity for the purposes of Section 236 of the Companies Act 2006 pursuant to a separate deed of indemnity. Such indemnities contain provisions that are permitted by the Director liability provisions of the Companies Act and the Company's Articles.

## Directors' interests

The number of ordinary shares in which the Directors were beneficially interested as at 31 December 2018 are set out in the Directors' Remuneration Report on page 75.

In line with the requirements of the Companies Act, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These were considered and approved by the Board in accordance with the Articles and each Director was informed of the authorisation and any terms on which it was given. The Board has formal procedures to deal with Directors' conflicts of interest.

None of the Directors has a material interest in any significant contract with the Company or any member of its Group.

## Results and dividends

The Group's and the Company's audited financial statements for the year are set out on pages 90 to 140. On admission, the Company paid an accrued dividend of £523,755.54 in cash to the holders of Series A preferred shares in accordance with the Articles of Association in place prior to the IPO.

The Directors do not recommend payment of a final dividend for 2018 (2017: £nil).

## Appointment and replacement of Directors

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association and are governed by the 2016 Code, the Companies Act 2006 and related legislation. At the AGM, all Directors will offer themselves for re-election to the Company's Board.

## Amendment of the Articles

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. No amendments are proposed to be made to the existing Articles of Association at the forthcoming Annual General Meeting.

## Authority to allot or purchase the Company's shares

The Articles permit the Directors to issue or approve the purchase by the Company of its own shares, subject to obtaining shareholders' prior approval. The authority to issue or buy back shares will expire at the 2019 AGM, and it will be proposed at the meeting that the Directors be granted new authorities to issue and buy back shares. The Directors currently have authority to approve the Company's purchase of up to 34,505,000 of the Company's ordinary shares. However, the Company did not repurchase any of its ordinary shares during the year.

## Share capital

The Company's issued share capital comprises ordinary shares of £0.001, each of which are listed on the London Stock Exchange. The issued share capital of the Company as at 31 December 2018 comprises 346,033,078 ordinary shares of £0.001 each. Further information regarding the Company's issued share capital can be found on page 118 of the financial statements.

Details of the shares held by the Group's Employee Benefit Trust are disclosed in note 18 to the financial statements.

## Rights attaching to shares

All shares have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as set out in the Articles, described below. Except in relation to dividends and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company. The Company's shares are not redeemable. However, following any grant of authority from shareholders, the Company may purchase or contract to purchase any of the shares on or off market, subject to the Companies Act 2006 and the requirements of the Listing Rules.

## Voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting, every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every share of which he or she is the holder. No shareholder holds ordinary shares carrying special rights relating to the control of the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights. Shares held by the Company's Employee Benefit Trust rank pari passu with the shares in issue and have no special rights, but voting rights and rights of acceptance of any offer relating to the shares rest with the plan's Trustees and are not exercisable by employees.

## Restrictions on transfer of securities

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. All issued share capital of the Company at the date of this report is fully paid. Certain restrictions are also imposed by laws and regulations (such as insider trading and marketing requirements relating to closed periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

For a period of one year following the IPO each of the Directors (and certain of their immediate family members) and the members of the Global Leadership Team agreed not to dispose of any of the ordinary shares they hold in the Company. This lock up period expires at the close of business on 3 October 2019.

For a period of 180 days following the IPO, all other shareholders holding 0.25% of the Company immediately prior to the IPO agreed not to dispose of any of the ordinary shares they hold in the Company. This lock up period expires at the close of business on 1 April 2019.

The above lock up arrangements are subject to certain customary exceptions.

# Report of the Directors continued

for the year ended 31 December 2018

## Change of control

Save in respect of certain awards made to members of the Global Leadership Team and the Executive Directors under the Company's pre-IPO share plans (as further described on page 120) and a provision of the Company's current long-term incentive plan (which may cause options and awards granted to employees under such schemes to vest on takeover and as further described on page 71 of this report), there are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) because of a takeover bid.

The Group is party to a limited number of funding agreements that include change of control provisions which, in the event of a change of control of the Company, could result in the termination of those arrangements, generally resulting in the discontinuation of further loan origination and termination of servicing by the Group under the affected arrangement.

## Significant shareholdings

As at 31 December 2018 and 28 February 2019, the Company has been notified pursuant to DTR5, or is otherwise aware, of the following significant interests in the issued ordinary share capital of the Company:

| Name of Shareholder | Number of ordinary shares as at 31 December 2018 | Percentage issued share capital as at 31 December 2018 | Number of ordinary shares as at 28 February 2019 | Percentage issued share capital as at 28 February 2019 | Nature of holding |
|---|---|---|---|---|---|
| Index Ventures | 58,618,351 | 16.94 | 58,618,351 | 16.94 | Direct |
| Aktieselskabet af 2.7.2018 | 35,100,000 | 10.14 | 35,400,000 | 10.23 | Indirect |
| Accel Partners | 26,906,743 | 7.78 | 26,906,743 | 7.77 | Direct |
| Merian Global Investors | 26,568,379 | 7.68 | 25,353,074 | 7.32 | Indirect |
| Invesco Perpetual Asset Mgt | 21,994,488 | 6.36 | 21,994,488 | 6.35 | Indirect |
| DST Managers | 16,505,378 | 4.77 | 16,505,378 | 4.77 | Direct |
| Union Square Ventures | 16,270,792 | 4.70 | 16,270,792 | 4.70 | Direct |
| Mr Samir Desai | 14,207,345[1] | 4.11 | 14,341,720[1] | 4.14 | Indirect |
| Baillie Gifford & Co | 10,957,201 | 3.17 | 10,957,201 | 3.17 | Direct and indirect |
| Mr James Meekings | 10,372,107[2] | 3.00 | 10,387,732[2] | 3.00 | Indirect |

1. This does not include shares held by Samir Desai's father (which were included in his stated shareholding for the purposes of the Company's prospectus in September 2018).
2. This does not include shares held by James Meekings' father (which were included in his stated shareholding for the purposes of the Company's prospectus in September 2018).

No disclosures have been made to the Company pursuant to DTR5 in the period between 28 February 2019 and 6 March 2019 (the latest practicable date prior to the date of this Report).

## Research and development

The Group invests in the research and development of unique technology and software products that enable the Group to achieve its key performance objective of growing lending to small businesses internationally whilst delivering attractive risk-adjusted returns to investors.

## Political donations

There were no political donations made during the year or the previous year.

## External branches

The Company has subsidiaries in the United States of America, Germany, Spain and the Netherlands but the Group had no registered external branches during the reporting period or prior year.

## Independent auditors

PricewaterhouseCoopers LLP (the "auditors") have confirmed their willingness to continue as independent auditors and will retain appointment in accordance with Section 487 of the Companies Act 2006.

## Statement of disclosure of information to auditors

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

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

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

## 2019 Annual General Meeting

The Company's AGM will take place on 5 June 2019 at 65 Fleet Street, London, EC4Y 1HS. The Chairman, and the Chairs of the Audit, Remuneration and Risk and Compliance Committees, will be present to answer questions put to them by shareholders. Electronic proxy voting will be available to shareholders through both our Registrar's website and the CREST service. For shareholders who have not registered for electronic communications, the website for voting is www.shareview.co.uk. Voting at the AGM will be conducted by way of a poll. The results will be posted on the Company's corporate website (www.corporate.fundingcircle.com) after the meeting and notified to the UK Listing Authority.

# Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

The Directors, whose names and functions are listed in the Corporate Governance Report, confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Approved by the Board and signed on its behalf.

**Samir Desai**
Chief Executive Officer
7 March 2019

# Independent auditors' report

to the members of Funding Circle Holdings plc

## Report on the audit of the Group financial statements

### Opinion

In our opinion, Funding Circle Holdings plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated balance sheet as at 31 December 2018; the Consolidated statement of comprehensive income, the Consolidated statement of changes in equity, the Consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

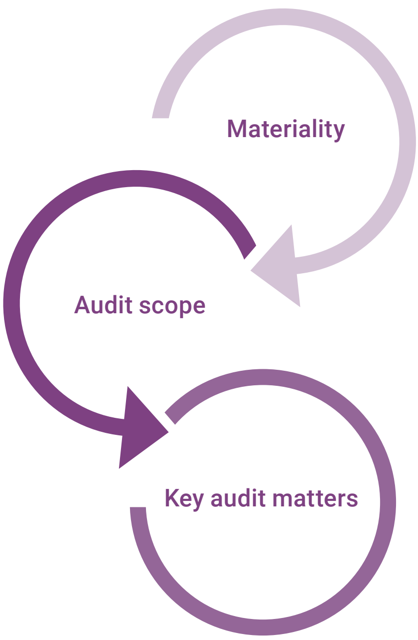
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Group in the period from 1 January 2018 to 31 December 2018.

### Our audit approach

#### Overview




- Overall Group materiality: £2.2 million (2017: £945,000), based on 5% of loss before tax (adjusted for exceptional costs in respect of the IPO). We considered it appropriate to reduce materiality through exclusion of IPO costs from our calculation given that these are material and one-off in nature.
- We have changed the benchmark from our 2017 audit, for which materiality was based on 1% of revenues. We consider loss before tax (adjusted for exceptional costs in respect of the IPO) to be the most appropriate benchmark used in assessing the performance of the Group now that the business is listed.

- Our audit included full scope audits of the UK and US components which accounted for approximately 92% of the Group's revenues and 71% of the Group's loss before tax (adjusted for exceptional costs in respect of the IPO).
- We performed specified procedures in respect of the Central Europe ("CE") component and at a Group level which together with the full scope audits accounted for 100% of revenues and approximately 78% of the Group's loss before tax (adjusted for exceptional costs in respect of the IPO).

- Valuation of the expected credit loss provision.
- Impairment of goodwill.

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

## Report on the audit of the Group financial statements continued

### Our audit approach continued

#### Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Group's provision of regulated products and services under its Financial Conduct Authority ("FCA") licence, 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. 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 the posting of inappropriate journals and the application of management bias in areas of estimation or judgement. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- reading the Group's FCA authorisations and permissions and verifying that regulatory submissions are up to date;
- conducting inquiries of management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigations of such matters;
- identifying and testing journal entries and period-end adjustments;
- incorporated unpredictability into our testing; and
- challenging assumptions and judgements made by management in its accounting estimates, in particular in relation to the expected credit loss provision and goodwill impairment assessments.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Valuation of the expected credit loss provision**<br>*Refer to note 1 (Accounting policy – Financial instruments); and note 17 (Provisions)*<br>In certain circumstances, the Group has entered into arrangements with institutional investors providing financial guarantees whereby the Group is required to make payments when the underlying borrower fails to meet its obligation under the loan contract.<br>With the introduction of IFRS 9 from 1 January 2018, a number of additional judgements and assumptions are introduced and reflected in the financial statements, giving rise to a change in the basis on which the credit risk for such arrangements is determined and correspondingly the valuation.<br>The valuation of the expected credit loss requires estimation, and the calculation has a number of inputs that consider past experience as well as forward-looking information.<br>The key elements of estimation within the expected credit loss calculation that have the greatest impact on the provision are borrower defaults and historical loss trends. | - We assessed the appropriateness of the methodology applied to determine the expected credit loss provision with reference to the requirements of IFRS 9.<br>- Given application from 1 January 2018, we tested the opening credit loss provision and assessed the appropriateness of the transitional disclosures.<br>- We tested the mathematical accuracy of the models and corroborated the underlying data (i.e. key terms of the loan book information including the loan amount and dates of maturity, scheduled repayment and the latest repayment date) back to supporting documentation.<br>- We have tested historical defaults on the loan book where financial guarantees are in place and, where relevant, across a similar portfolio of loans under management as this has the greatest impact on estimations of the expected credit loss.<br>- We have compared the historical default rates experienced to the loss rate applied within the credit loss provision models and found them to be in agreement.<br>- We performed sensitivity analysis and determined the range of credit loss rates within which no material misstatement would result to be reasonable. |

# Independent auditors' report continued

to the members of Funding Circle Holdings plc

## Report on the audit of the Group financial statements continued

### Our audit approach continued

**Key audit matters** continued

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment of Goodwill**<br>*Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements; note 2 (Accounting policy); and note 11 (Goodwill).*<br>The Group holds goodwill in respect of the previous acquisitions of the Central Europe (£30.6 million) and the US (£11.7 million) businesses.<br>IAS 36 'Impairment of Assets' requires that goodwill is subject to an impairment review at least annually, or more frequently when there is evidence of a trigger event. Specific disclosures in respect of the impairment assessment are also required.<br>The Directors' annual impairment assessment concluded that there was headroom over the varying value. The key assumptions in this assessment included the forecast revenue growth, the discount rate and the perpetuity growth rate.<br>We have focused on this area as the preparation of these assessments involves a significant degree of estimation. | Our audit procedures comprised the following:<br>- tested the methodology built into the model produced by management to determine whether the Directors' impairment assessment addressed the requirements of the financial reporting framework, and reperformed the calculations;<br>- evaluated the accuracy of prior years' forecasts in light of past performance and actual results achieved to assess the quality and reliability of management's forecasts for each CGU;<br>- challenged management over the reasonableness of the key assumptions inherent in the model;<br>- agreed information, in particular forecast financial information, to budgets and forecasts approved by senior management; and<br>- assessed the appropriateness of the discount rate assumptions by comparing them with that of comparable businesses.<br>We also performed sensitivity analysis around the key drivers of the cash flow forecasts, being:<br>- the revenue growth rate for the first five years;<br>- the perpetuity growth rate; and<br>- the discount rate.<br>Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the goodwill to be impaired for the CGU, we considered the likelihood of such a movement in those key assumptions arising.<br>We did not identify any issues with management's key assumptions based on our evaluation of supporting evidence, together with management's and our own sensitivity analysis performed.<br>We also considered the appropriateness of the related disclosures in note 11 to the financial statements. We found that the disclosures appropriately describe the key areas of estimation and sensitivities in the Directors' assessment. |

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which it operates.

## Report on the audit of the Group financial statements continued

### Our audit approach continued

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall Group materiality | £2.2 million (2017: £945,000). |
| How we determined it | 2018: 5% of loss before tax (adjusted for exceptional costs in respect of the IPO).<br>2017: 1% of total revenues. |
| Rationale for benchmark applied | We determined materiality by applying 5% to consolidated loss before tax excluding exceptional costs incurred (entirely in respect of the IPO). This represents a change in the benchmark from 2017 for which the benchmark used was revenue and materiality calculated applying 1% to consolidated revenues.<br>We consider loss before tax (adjusted for exceptional costs in respect of the IPO) to be the most appropriate benchmark used in assessing the performance of the Group now that the business is listed. We believe that underlying loss before tax is the most appropriate measure as it eliminates any disproportionate effects of the one-off in nature IPO-related costs. We highlight that this gives rise to a lower materiality than would be derived if using the statutory measure of loss before tax. |

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £880,000 and £1,500,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £110,000 (2017: £47,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy. |
| We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

# Independent auditors’ report continued

to the members of Funding Circle Holdings plc

## Report on the audit of the Group financial statements continued

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors’ Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report, Directors’ Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 ("CA06"), ISAs (UK) and the Listing Rules of the Financial Conduct Authority ("FCA") require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

#### Strategic Report and Directors’ Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors’ Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors’ Report. (CA06)

#### Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 46 to 83) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA (“DTR”) is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 46 to 83) with respect to the Company’s corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

#### The Directors’ assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors’ confirmation on page 39 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors’ explanation on page 44 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors’ statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors’ process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the “Code”); and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit. (Listing Rules)

## Report on the audit of the Group financial statements continued

### Reporting on other information continued

#### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- the statement given by the Directors on page 61, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit;
- the section of the Annual Report on page 60 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

### Responsibilities for the financial statements and the audit

#### Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on page 83, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or 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.

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

#### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- certain disclosures of Directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 4 August 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 December 2015 to 31 December 2018.

## Other matter

We have reported separately on the Company financial statements of Funding Circle Holdings plc for the year ended 31 December 2018 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Brian Henderson (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2019

# Consolidated statement of comprehensive income

for the year ended 31 December 2018

| | Note | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|---|
| Revenue | 4 | 141.9 | 94.5 |
| Operating expenses | 5 | (193.5) | (131.4) |
| **Operating loss** | | (51.6) | (36.9) |
| Finance income | 8 | 0.9 | 0.6 |
| **Loss before taxation** | | (50.7) | (36.3) |
| Income tax | 9 | 1.4 | 1.0 |
| **Loss for the year** | | (49.3) | (35.3) |
| **Other comprehensive income/(loss)** | | | |
| Items that may be reclassified subsequently to profit and loss: | | | |
| Exchange differences on translation of foreign operations | 20 | 2.4 | (1.9) |
| **Total comprehensive loss for the year** | | (46.9) | (37.2) |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the parent | | (46.9) | (37.2) |
| **Loss per share** | | | |
| Basic and diluted loss per share | 10 | (18.2p) | (14.0p) |

All amounts relate to continuing activities.

The notes on pages 94 to 126 form part of these financial statements.

# Consolidated balance sheet

as at 31 December 2018

| | Note | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 11 | 42.3 | 41.3 |
| Intangible assets | 12 | 21.5 | 16.2 |
| Property, plant and equipment | 13 | 5.3 | 4.7 |
| Investments | 14 | 0.3 | 0.3 |
| | | 69.4 | 62.5 |
| **Current assets** | | | |
| Investments | 14 | 4.7 | 3.1 |
| Trade and other receivables | 15 | 23.0 | 13.4 |
| Cash and cash equivalents | 23 | 333.0 | 88.9 |
| | | 360.7 | 105.4 |
| **Total assets** | | 430.1 | 167.9 |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 23.1 | 12.0 |
| Short-term provisions | 17 | 3.8 | 2.1 |
| | | 26.9 | 14.1 |
| **Non-current liabilities** | | | |
| Long-term provisions | 17 | 0.8 | 0.4 |
| **Total liabilities** | | 27.7 | 14.5 |
| **Equity** | | | |
| Share capital | 18 | 0.3 | 0.2 |
| Share premium account | 19 | 291.8 | 278.0 |
| Foreign exchange reserve | 20 | 15.7 | 13.3 |
| Share options reserve | | 6.0 | 13.9 |
| Retained earnings/(accumulated losses) | 21 | 88.6 | (152.0) |
| **Total equity** | | 402.4 | 153.4 |
| **Total equity and liabilities** | | 430.1 | 167.9 |

The financial statements on pages 90 to 126 were approved by the Board and authorised for issue on 7 March 2019. They were signed on behalf of the Board by:

**Sean Glithero**
Director

Company registration number 07123934

The notes on pages 94 to 126 form part of these financial statements.

# Consolidated statement of changes in equity

for the year ended 31 December 2018

| | Note | Share capital £m | Share premium account £m | Foreign exchange reserve £m | Share options reserve £m | Retained earnings/ (accumulated losses) £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | | 0.2 | 196.0 | 15.2 | 9.5 | (116.7) | 104.2 |
| Loss for the year | 21 | — | — | — | — | (35.3) | (35.3) |
| Other comprehensive (loss)/income | | | | | | | |
| Exchange differences on translation of foreign operations | 20 | — | — | (1.9) | — | — | (1.9) |
| Transactions with owners | | | | | | | |
| Issue of share capital | 19 | — | 82.0 | — | — | — | 82.0 |
| Employee share schemes – value of employee services | | — | — | — | 4.4 | — | 4.4 |
| Balance at 31 December 2017 | | 0.2 | 278.0 | 13.3 | 13.9 | (152.0) | 153.4 |
| IFRS 9 expected credit loss restatement | 1 | — | — | — | — | (1.2) | (1.2) |
| Balance at 1 January 2018 | | 0.2 | 278.0 | 13.3 | 13.9 | (153.2) | 152.2 |
| Loss for the year | 21 | — | — | — | — | (49.3) | (49.3) |
| Other comprehensive income/(loss) | | | | | | | |
| Exchange differences on translation of foreign operations | 20 | — | — | 2.4 | — | — | 2.4 |
| Transactions with owners | | | | | | | |
| Transfer of share option costs | 21 | — | — | — | (13.0) | 13.0 | — |
| Capital reduction | 19 | — | (278.1) | — | — | 278.1 | — |
| Issue of share capital | 18, 19 | 0.1 | 301.0 | — | — | — | 301.1 |
| Equity issuance costs | 19 | — | (9.1) | — | — | — | (9.1) |
| Employee share schemes – value of employee services | | — | — | — | 5.1 | — | 5.1 |
| Balance at 31 December 2018 | | 0.3 | 291.8 | 15.7 | 6.0 | 88.6 | 402.4 |

The notes on pages 94 to 126 form part of these financial statements.

# Consolidated statement of cash flows

for the year ended 31 December 2018

| | Note | 31 December 2018 £m | 31 December 2018 £m | 31 December 2017 £m | 31 December 2017 £m |
|---|---|---|---|---|---|
| Net cash outflow from operating activities | 23 | | (28.5) | | (22.6) |
| Investing activities | | | | | |
| Purchase of intangible assets | | (11.0) | | (10.7) | |
| Purchase of property, plant and equipment | | (2.3) | | (1.3) | |
| Investment in loan securities | | (1.1) | | (1.3) | |
| Interest received | | 0.9 | | 0.6 | |
| Net cash outflow from investing activities | | | (13.5) | | (12.7) |
| Financing activities | | | | | |
| Proceeds on issue of preferred shares | 18,19 | – | | 82.0 | |
| Preferred share issue costs | | – | | (0.1) | |
| Preferred dividend payment | | (0.5) | | – | |
| Proceeds on the issue of ordinary shares on IPO | 19 | 300.0 | | – | |
| Payment of IPO costs | | (15.0) | | – | |
| Proceeds from the exercise of share options | | 1.1 | | – | |
| Net cash inflow from financing activities | | | 285.6 | | 81.9 |
| Net increase in cash and cash equivalents | | | 243.6 | | 46.6 |
| Cash and cash equivalents at the beginning of the year | | | 88.9 | | 43.3 |
| Effect of foreign exchange rate changes | | | 0.5 | | (1.0) |
| Cash and cash equivalents at the end of the year | | | 333.0 | | 88.9 |

The notes on pages 94 to 126 form part of these financial statements.

# Notes forming part of the consolidated financial statements

for the year ended 31 December 2018

## 1. Accounting policies

### General information

Funding Circle Holdings plc (the "Company"), previously Funding Circle Holdings Limited, is a public limited company which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 141. The consolidated financial statements of the Company for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Going concern

The Group's business activities together with the factors likely to affect its future development and position are set out in the Strategic Report.

The Group made a total comprehensive loss of £46.9 million during the year ended 31 December 2018 (2017: loss of £37.2 million), as a result of significant ongoing investment in staff, technology and marketing, which is expected to continue in 2019. The cash balance of the Group as at 31 December 2018 was £333.0 million (2017: £88.9 million).

The financial statements are prepared on a going concern basis as the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future (which has been taken as 12 months from the date of approval of the financial statements).

The Group has prepared detailed cash flow forecasts for the next 12 months. The Directors have made enquiries with management and considered budgets and cash flow forecasts for the Group and have, at the time of approving these financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Further detail is contained in the Strategic Report on page 45.

### Basis of preparation

The Group presents its annual financial statements in conformity with United Kingdom laws and regulations.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### Changes in accounting policy and disclosures

The Group has adopted the following new IFRSs from 1 January 2018 prospectively in the financial statements. There has not been a material impact to the Group when adopting these new IFRSs:

| Standard/interpretation | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IFRS 9 | Financial Instruments | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |

**IFRS 9 Financial Instruments**

The Group adopted IFRS 9 Financial Instruments as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in the accounting policies and certain disclosures in the financial statements. The Group did not early adopt any of IFRS 9 in previous periods and, as permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures.

There have been no adjustments to the carrying value of financial assets and liabilities at the date of transition that have been recognised in the opening retained earnings, save the expected credit loss provision ("ECL") relating to financial guarantee contracts:

| | Performing: 12-month ECL £m | Underperforming: lifetime ECL £m | Non-performing: lifetime ECL £m | Total £m |
|---|---|---|---|---|
| Expected credit loss provision at 31 December 2017 | 0.4 | 0.3 | 0.6 | 1.3 |
| Amounts restated through opening retained earnings | 1.2 | — | — | 1.2 |
| Expected credit loss provision at 1 January 2018 | 1.6 | 0.3 | 0.6 | 2.5 |

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

# 1. Accounting policies continued

## Changes in accounting policy and disclosures continued

### **IFRS 9 Financial Instruments** continued

#### (a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

| | IAS 39 | | IFRS 9 | |
|---|---|---|---|---|
| **1 January 2018** | Measurement category £m | Carrying amount £m | Measurement category £m | Carrying amount £m |
| Financial assets | | | | |
| Investment in loan securities under cure period | Fair value through profit and loss ("FVTPL") | 3.1 | FVTPL | 3.1 |
| Investment in loan securities | Amortised cost (loans and receivables) | 0.3 | Amortised cost | 0.3 |
| Trade and other receivables | Amortised cost (loans and receivables) | 13.4 | Amortised cost | 13.4 |
| Cash and cash equivalents | Amortised cost (loans and receivables) | 88.9 | Amortised cost | 88.9 |
| Financial liabilities | | | | |
| Trade and other payables | Amortised cost | 12.0 | Amortised cost | 12.0 |
| Provisions | Amortised cost | 2.5 | Amortised cost | 3.7 |

As shown in the table above, investment in loan securities, trade and other receivables and cash and cash equivalents were shown under IAS 39 as "loans and receivables". Under IFRS 9 these are now categorised as "amortised cost".

The categorisation of all financial liabilities recognised on the balance sheet has remained the same between IAS 39 and IFRS 9.

The amounts expected to be recovered or settled for assets and liabilities in the financial statements are due no more than 12 months after the reporting period unless specifically stated.

#### (b) Impairment

The credit loss provision relating to financial guarantee contracts is impacted by the expected credit loss model. An opening balance adjustment has been made to retained earnings under IFRS 9 (refer to note 17).

### IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers was issued in 2014 and was endorsed by the EU in 2016. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue.

IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers:

1) identify the contract with the customer;

2) identify the performance obligations in the contract, introducing the new concept of "distinct";

3) determine the transaction price;

4) allocate the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis; and

5) recognise revenue when (or as) the entity satisfies its performance obligation.

IFRS 15 also introduces new guidance on, amongst other areas, combining contracts, discounts, variable consideration and contract modifications. It requires that certain costs incurred in obtaining and fulfilling customer contracts be deferred on the balance sheet and amortised over the period an entity expects to benefit from the customer relationship.

Management has conducted a detailed analysis of the impact of IFRS 15 on the Group which has shown that the recognition of revenue will be consistent with the transfer of risks and rewards to the customer under IAS 18. We have concluded following this assessment that the implementation of IFRS 15 has not resulted in any impact to revenue in the Group's financial statements. Transaction fees, servicing fees and other revenue are recognised when the Group satisfies the respective performance obligations which remain consistent with the treatment of these revenue streams prior to IFRS 15 (refer to revenue recognition policy).

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 1. Accounting policies continued

### New standards and interpretations not yet adopted

The following standards and interpretations were issued by the IASB and IFRS IC but have not been adopted because they are not yet mandatory and the Group has not chosen to early adopt.

| Standard/interpretation | Content | Applicable for financial years beginning on/after |
|---|---|---|
| IFRS 16 | Leases | 1 January 2019 |

IFRS 16 replaces IAS 17 Leases and will primarily change lease accounting, with lessor accounting under IFRS 16 similar to lessor accounting under IAS 17. Lessee accounting under IFRS 16 will be similar in many respects to IAS 17 accounting for finance leases, but is substantively different to existing accounting for operating leases.

Where a contract meets IFRS 16's definition of a lease and the Group acts as a lessee, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item, and a liability for future lease payments on the Group's balance sheet.

Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability, which will impact the phasing of operating profit and profit before tax, compared to existing cost profiles and presentation in the income statement. The application of IFRS 16 will also impact the classification of associated cash flows.

The Group intends to apply the full retrospective approach in the application of IFRS 16 on the transition date.

Total costs incurred remain unchanged over the life of the lease but the timing of when those costs are recognised within the consolidated income statement will be impacted. Based on analysis of lease commitments held by the Group at 31 December 2018, and using estimated discount rates, the net impact on profit is expected to be immaterial to the Group. This does not impact the timing of the Group's cash flows.

Below is a summary of the impact of the new standard on the balance sheet and statement of comprehensive income for the year ended 31 December 2018:

| Balance sheet | Prior to implementation of IFRS 16 £m | Impact of IFRS 16 £m | Post implementation of IFRS 16 £m |
|---|---|---|---|
| Total assets | 430.1 | 19.9 | 450.0 |
| Total liabilities | (27.7) | (21.3) | (49.0) |
| Total equity | 402.4 | (1.4) | 401.0 |

| Statement of comprehensive income | Prior to implementation of IFRS 16 £m | Impact of IFRS 16 £m | Post implementation of IFRS 16 £m |
|---|---|---|---|
| Operating loss | (51.6) | 0.8 | (50.8) |
| Finance income | 0.9 | (1.0) | (0.1) |
| Loss before tax | (50.7) | (0.2) | (50.9) |

The impact from the implementation of IFRS 16 would result in a favourable increase in the Group adjusted EBITDA by £5.1 million and an increase in depreciation of £4.3 million.

### Basis of consolidation

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

The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The Group applies the acquisition method to account for business combinations. In the consolidated statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

## 1. Accounting policies continued

### Foreign currency translation

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the prevailing rate at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

### Functional and presentation currency

These consolidated financial statements are presented in GBP sterling, which is the Group's functional currency.

All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the prevailing rate at the reporting date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the prevailing rate at the reporting date.

### Segment reporting

Operating segments are reported in the manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Global Leadership Team that makes strategic decisions. For each identified operating segment, the Group has disclosed information for the key performance indicators that are assessed internally to review and steer performance in the Strategic Report section of this report.

Transfer prices between segments are on an arm's length basis in a manner similar to transactions with third parties.

### Exceptional items

Exceptional items are the items of income or expense that the Group considers are material, one-off in nature and of such significance that they merit separate presentation in order to aid the reader's understanding of the Group's financial performance. Such items would include profits or losses on disposal of businesses; transaction costs (including those associated with an IPO); acquisitions and disposals; major restructuring programmes; significant goodwill or other asset impairments; and other particularly significant or unusual items.

### Revenue recognition

Revenue represents fees receivable from lenders and borrowers for the arranging of finance.

Revenue earned for the arrangement of finance is classified as transaction revenue. It is recognised immediately once loans are fully funded on the marketplace and after the loans are accepted by the borrowers. Such fees are automatically deducted from the amount borrowed and recognised at that point as the Group has the right to consideration.

Revenue earned from servicing of finance is classified as servicing revenue. It comprises an annualised fee representing a percentage of outstanding principal and is recognised on a monthly basis upon repayment of loan parts by borrowers. Due to the conditions of the trade, there are no partially completed contracts at the balance sheet date and no advance payments from customers.

Revenue included within other revenue includes referral fees, excess premium or fees earned from providing a financial guarantee on loans held by certain institutional investors and any income earned on investments in loan securities and is recognised as services are performed on an accruals basis.

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Group's activities. Revenue recorded in the financial statements is generated in the UK, the USA, Germany and the Netherlands. All fees are calculated based on the above revenue recognition policy.

### Administrative expenses

Administrative expenses are recognised as an expense in the statement of comprehensive income in the period in which they are incurred on an accruals basis.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 1. Accounting policies continued

### Leases

Leases are classified as operating leases where the lessor retains substantially all the risks and benefits of ownership of the asset.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are initially recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

### Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options and shares) of the Company. The fair value of the employee services received in exchange for the grant of the options and shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options and shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Group over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimate of the number of options and shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options and shares over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investment in subsidiary undertakings, with a corresponding credit to equity in the Parent entity (the Company) accounts.

### Pension obligations

The Group operates a defined contribution pension scheme for employees in the UK. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. Contributions payable to the Group's pension scheme are charged to the statement of comprehensive income in the year to which they relate. The Group has no further payment obligations once the contributions have been paid.

### Current and deferred tax

The tax expense for the year comprises current and deferred tax. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, based on amounts expected to be paid to the tax authorities.

Deferred tax assets for unused tax losses, tax credits and deductible temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for any deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

## 1. Accounting policies continued

### Current and deferred tax continued

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

### Dividends

Dividends are recognised when they become legally payable, in accordance with the Companies Act 2006.

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Intangible assets

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives. Useful lives and amortisation methods are reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis. Amortisation commences when the intangible asset is available for use. The residual value of intangible assets is assumed to be zero.

#### Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the licence period.

#### Capitalised development costs

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over their estimated useful lives, ranging from three to five years. Items that are amortised over the longer period relate to the development of the Group's global technology platform.

#### Other intangibles

Other intangibles relate to the technology platform and customer relationship (representing fees due on contracted loans expected to be realised in the foreseeable future) acquired on a business combination. These costs are amortised over their estimated useful lives, which do not exceed three years.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 1. Accounting policies continued

### Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

| | |
|---|---|
| Computer equipment | 1–3 years |
| Furniture and fixtures | 3–5 years |

Leasehold improvements that qualify for recognition as an asset are measured at cost and are presented as part of property, plant and equipment in the non-current assets section on the balance sheet. Depreciation on leasehold improvements is calculated using the straight-line method over the lease term.

### Impairment of tangible and intangible assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this was the case, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Financial instruments

#### Financial assets

The Group determines the classification of its financial assets at initial recognition. From 1 January 2018 the requirements of IFRS 9 for classification and subsequent measurement have been applied which require financial assets to be classified based on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset:

- Financial assets are measured at amortised cost if they are held within a business model, the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.
- Financial assets are measured at fair value through profit and loss if they are held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.
- Financial assets that do not meet the criteria to be amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. In addition, the Group may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The purchase of any credit impaired assets is also at fair value after any impairment.

Except for certain investments in loan securities as described below, the Group does not recognise on its balance sheet loans arranged between borrowers and investors as it is not a principal party to the contracts and is not exposed to the risks and rewards of these loans.

With the exception of investments in loan securities under cure period, all financial assets are held to collect contractual cash flows.

## 1. Accounting policies continued

### Financial instruments continued

**Financial assets** continued

However, under certain circumstances the Group does hold investments in loan securities. The two types of investment in loan securities held are as follows:

i) Investment in loan securities under cure period

In the US, investors commit to providing loans to Funding Circle Marketplace LLC (the originator of the borrower loans) in advance of the physical transfer of monies. Funding Circle USA Inc initially funds these committed loans to the borrowers and recovers the monies from the investors after the two to three-day cure period and therefore retains the credit risk during this short period.

Investments in loan securities under cure period have been classified as financial assets at fair value through profit or loss under IAS 39 and under IFRS 9.

The above classification is mainly because all such loans are acquired principally for selling in the short term. They are initially recognised at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in profit or loss.

ii) Investment in other loan securities

The Group holds investments in certain business loans as a result of a commercial arrangement with institutional investors in the marketplace (see note 14). These investments in other loan securities are classified as loans and receivables (from 1 January 2018: amortised cost) and are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Other financial assets

Financial assets recognised in the balance sheet as trade and other receivables were classified as loans and receivables (from 1 January 2018: amortised cost). They are recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Cash and cash equivalents are classified as amortised cost (2017: loans and receivables) with the exception of money market funds that are classified as FVTPL. Cash and cash equivalents include cash in hand, deposits held at call with banks, money market funds and other short-term highly liquid investments with original maturities of three months or less. The carrying amount of these assets approximates to their fair value.

Impairment of financial assets

For periods before the year ended 31 December 2018 the Group applied the impairment requirements of IAS 39.

Under the requirements of IAS 39, at each reporting date, the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence (such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

The Group reviews its investments in loan securities to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within an individual loan in that portfolio.

This evidence may include observable data indicating that there is an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling in future cash flows. The methodology and assumptions used for estimating both the amount and timings of future cash flows are reviewed regularly to reduce any variances between loss estimates and actual loss experience.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 1. Accounting policies continued

### Financial instruments continued

**Financial assets** continued

Impairment of financial assets continued

From 1 January 2018 the Group applied the impairment requirements of IFRS 9. The IFRS 9 impairment model introduces a three-stage approach:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (that is, expected losses arising from the risk of default in the next 12 months) are recognised and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit impaired. For these assets, lifetime ECL (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised, and interest income is still calculated on the gross carrying amount of the asset.
- Stage 3 consists of financial assets that are credit impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For these assets, lifetime ECL are also recognised, but interest revenue is calculated on the net carrying amount (that is, net of the ECL allowance).

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial assets carried at amortised cost and recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income.

Derecognition of financial assets

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

The Group derecognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Financial liabilities

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non interest-bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

### Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. Under IFRS 9, applicable from 1 January 2018, the expected credit loss model is being used to measure and recognise the financial liability (as further detailed in note 17).

## 1. Accounting policies continued

### Share capital

Ordinary shares are classified as equity where their terms include no contractual obligation to transfer cash or another financial asset to another entity.

### Preferred share capital

Up until the IPO, preferred share capital was classified as equity if it was non-redeemable, or redeemable only at the Company's option, and any dividends were discretionary. Dividends thereon were recognised as distributions within equity upon approval by the Company's shareholders.

Preferred share capital was classified as a liability if it was redeemable on a specific date or at the option of the shareholders, or if dividend payments were not discretionary. Dividends thereon were recognised as interest expense in profit or loss as accrued. The preference shares were converted into ordinary shares on a one-to-one basis on IPO.

### Loss per share

The Group presents basic and diluted losses per share ("LPS") for its ordinary shares. Basic and diluted LPS are calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

### Shares held by the employee benefit trust

The Company has established an offshore employee benefit trust ("EBT").

The employee share benefit trust ("EBT") provides for the issue of shares to Group employees principally under share option schemes. The Group has control of the EBT and therefore consolidates the EBT in the Group financial statements.

### Reserves

#### Foreign exchange reserve

The foreign exchange reserves represent the cumulative foreign currency translation movement on the assets and liabilities of the Group's international operations at year-end exchange rates.

#### Share options reserve

The share options reserve represents the cumulative charges to income under IFRS 2 Share-based Payments on all share options and schemes granted, net of share option exercises.

## 2. Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and ensure any limits are adhered to. The Group's activities are reviewed regularly and potential risks are considered.

### Risk factors

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk (including currency risk, interest rate risk and other price risk); and
- foreign exchange risk.

### Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- investments;
- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 2. Financial risk management continued

### Principal financial instruments continued

#### Categorisation of financial assets and financial liabilities

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2018:

| Assets | Assets at fair value through profit and loss £m | Amortised cost £m | Total £m |
|---|---|---|---|
| Investments | 4.7 | 0.3 | 5.0 |
| Trade and other receivables | – | 23.0 | 23.0 |
| Cash and cash equivalents | 150.0 | 183.0 | 333.0 |
| | 154.7 | 206.3 | 361.0 |

| Liabilities | Liabilities at fair value through profit and loss £m | Liabilities at amortised cost £m | Total £m |
|---|---|---|---|
| Trade and other payables | – | (23.1) | (23.1) |
| Provisions | – | (4.6) | (4.6) |
| | – | (27.7) | (27.7) |

The tables show the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2017:

| Assets | Assets at fair value through profit and loss £m | Loans and receivables £m | Total £m |
|---|---|---|---|
| Investments | 3.1 | 0.3 | 3.4 |
| Trade and other receivables | – | 13.4 | 13.4 |
| Cash and cash equivalents | – | 88.9 | 88.9 |
| | 3.1 | 102.6 | 105.7 |

| Liabilities | Liabilities at fair value through profit and loss £m | Other financial liabilities at amortised cost £m | Total £m |
|---|---|---|---|
| Trade and other payables | – | (12.0) | (12.0) |
| Provisions | – | (2.5) | (2.5) |
| | – | (14.5) | (14.5) |

### Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, investments in loan securities (excluding those held under cure period) and trade and other payables. Due to their short-term nature, the carrying value of each of the above financial instruments approximates to their fair value.

## 2. Financial risk management continued

### Financial instruments measured at fair value

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

Disclosure of fair value measurements by level is according to the following fair value measurement hierarchy:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liabilities, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments that are not traded in an active market (for example, investments in loan securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The investments categorised as level 2 all relate to investments in loan securities under loan curing. These are typically held for two to three days before being transferred to independent investors at the principal amount.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

| | Fair value measurement using | | | |
|---|---|---|---|---|
| 31 December 2018 | Quoted prices in active markets (level 1) £m | Significant observable inputs (level 2) £m | Significant unobservable inputs (level 3) £m | Total £m |
| Financial assets | | | | |
| Investments (in loan securities under cure period) | – | 4.7 | – | 4.7 |
| Cash and cash equivalents | 150.0 | – | – | 150.0 |
| | 150.0 | 4.7 | – | 154.7 |

| | Fair value measurement using | | | |
|---|---|---|---|---|
| 31 December 2017 | Quoted prices in active markets (level 1) £m | Significant observable inputs (level 2) £m | Significant unobservable inputs (level 3) £m | Total £m |
| Financial assets | | | | |
| Investments (in loan securities under cure period) | – | 3.1 | – | 3.1 |
| | – | 3.1 | – | 3.1 |

Loan investments held under cure period were originated during the last week of December 2018. As a result fair value is assumed to be equal to the outstanding principal amount.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 2. Financial risk management continued

### Financial risk factors

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held at banks.

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

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Non-current | | |
| Investments in loan securities | 0.3 | 0.3 |
| Current | | |
| Investments in loan securities | 4.7 | 3.1 |
| Trade and other receivables | | |
| – Trade receivables | 1.2 | 1.7 |
| – Other receivables | 6.5 | 2.6 |
| – Prepayments | 6.0 | 3.7 |
| – Accrued income | 3.6 | 0.9 |
| – Rent and other deposits | 5.7 | 4.5 |
| Cash and cash equivalents | 333.0 | 88.9 |

Investments in loan securities in current assets are held on average for two days before the physical transfer of monies from investors. The risk of financial loss is deemed minimal.

Trade receivables represent the invoiced amounts in respect of servicing fees due from institutional investors. The risk of financial loss is deemed minimal because the counterparties are well established financial institutions.

Ongoing credit evaluation is performed on the financial condition of other receivables and, where appropriate, a provision for impairment is recorded in the financial statements.

Other receivables include amounts receivable in respect of credit impaired debts acquired by the Group. The carrying amount of these loans is stated net of impairment charges and represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Individual risk limits for banks and financial institutions are set by external rating agencies. The Group's treasury policy has set limits and quantities that the Group must remain within. No credit or counterparty limits were exceeded during the year. The Group's cash and cash equivalents split by S&P counterparty rating were A rated: £30.1 million and A+ or better: £299.9 million.

#### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's position.

The Group's liquidity position is monitored and reviewed on an ongoing basis by the Directors.

The amounts disclosed in the following tables are the contractual undiscounted cash flows.

## 2. Financial risk management continued

### Financial risk factors continued

**Liquidity risk** continued

The maturity analysis of financial instruments at 31 December 2018 and 31 December 2017 is as follows:

| At 31 December 2018 | Less than 3 months £m | Between 3 months and 1 year £m | Between 1 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Investments in loan securities | 4.7 | – | 0.3 | – |
| Trade and other receivables | 11.9 | 8.2 | 2.9 | – |
| Cash and cash equivalents | 333.0 | – | – | – |
| | 349.6 | 8.2 | 3.2 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | (7.0) | (15.8) | – | – |
| Provisions | – | (3.8) | – | (0.8) |
| | (7.0) | (19.6) | – | (0.8) |

| At 31 December 2017 | Less than 3 months £m | Between 3 months and 1 year £m | Between 1 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Investments in loan securities | 3.1 | – | 0.3 | – |
| Trade and other receivables | 4.4 | 6.2 | 2.8 | – |
| Cash and cash equivalents | 88.9 | – | – | – |
| | 96.4 | 6.2 | 3.1 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | (3.0) | (9.0) | – | – |
| Provisions | – | (2.1) | – | (0.4) |
| | (3.0) | (11.1) | – | (0.4) |

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risk arises from open position in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

**(a) Price risk**

The Group is not exposed to market risk with respect to financial instruments as it does not hold any marketable securities.

**(b) Cash flow and fair value interest rate risk**

The Group is not exposed to interest rate risk in relation to financial liabilities because it does not have any external borrowings.

Non-trading interest rate risk

The Group's interest risk on financial assets is limited to interest receivable on loan note investments and cash and cash equivalent balances.

| | Less than 3 months | | Between 3 months and 1 year | | Between 1 and 5 years | |
|---|---|---|---|---|---|---|
| At 31 December | 2018 £m | 2017 £m | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| **Fixed rate** | | | | | | |
| Investments in loan securities | 4.7 | 3.1 | – | – | 0.3 | 0.3 |
| **Floating rate** | | | | | | |
| Cash and cash equivalents | 333.0 | 88.9 | – | – | – | – |
| | 337.7 | 92.0 | – | – | 0.3 | 0.3 |

There are no financial assets which are held for a period of over five years.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 2. Financial risk management continued

### Financial risk factors continued

**Market risk** continued

**(b) Cash flow and fair value interest rate risk** continued

Interest rate risk sensitivity analysis – non-trading interest (fixed rate)

Interest on loan note investments is fixed until the maturity of the investment. The level of future interest rate receivable would be similar to that received in the year and is considered immaterial to the Group's overall performance for the year.

Interest rate risk sensitivity analysis – non-trading interest (floating rate)

Interest on cash and cash equivalent balances is subject to movements in Libor. The Directors monitor interest rate risk and note that interest rates remain at a historical low. With the increased cash and cash equivalents following the IPO, a 0.5% increase in Libor could increase the annual interest earned by c.£1.5 million.

**(c) Sensitivity analysis**

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the report date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Group does not have significant exposure to liquidity or cash flow risk and therefore no sensitivity analysis for those risks has been disclosed.

**(d) Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the UK pound and the euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Apart from these particular cash flows the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

The Group is primarily exposed to the US dollar and euro currencies.

The following table details the Group's sensitivity to a 5% depreciation and 5% appreciation in pound sterling against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of a reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. The sensitivity analysis excludes quasi-equity loans to foreign operations within the Group.

| | Appreciation in pound sterling | | | | Depreciation in pound sterling | | | |
|---|---|---|---|---|---|---|---|---|
| At 31 December | Income statement 2018 £m | Equity 2018 £m | Income statement 2017 £m | Equity 2017 £m | Income statement 2018 £m | Equity 2018 £m | Income statement 2017 £m | Equity 2017 £m |
| US dollars | – | – | (0.4) | – | – | – | 0.4 | – |
| | – | – | (0.4) | – | – | – | 0.4 | – |

The Group's sensitivity to fluctuations in foreign currencies is related to the US dollar amount held in the Parent Company.

### Capital management

The Group considers its capital to comprise its ordinary share capital, share premium, foreign exchange reserve, share options reserve and retained earnings. Quantitative detail is shown in the consolidated statement of changes in equity.

The Directors' objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Directors monitor a number of KPIs at both the Group and individual subsidiary level on a monthly basis. As part of the budgetary process, targets are set with respect to operating expenses in order to effectively manage the activities of the Group. Performance is reviewed on a regular basis and appropriate actions are taken as required. These internal measures indicate the performance of the business against budget/forecast and confirm that the Group has adequate resources to meet its working capital requirements.

There are no current key assumptions or sources of estimation that may result in a material adjustment in future periods.

## 3. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the historical financial information. There are no further critical accounting judgements.

### Estimated impairment of assets (note 11)

The Group tests annually whether goodwill has suffered any impairment. All other assets are tested for impairment where there are indicators of impairment. The recoverable amount of cash-generating units has been determined based on value in use calculations. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the cash-generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates.

### Expected credit losses (note 17)

The Group must make its best estimate for the expected credit loss ("ECL") provision at each reporting date. This is of particular relevance where the Group has entered into agreements with institutional investors to guarantee the credit risk on their loan investments.

Significant estimate is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information. The most significant estimation is with delinquencies and default rates on performing loans. If the rates were to change by 50%, the provision would change by £1.1 million.

## 4. Segmental information

IFRS 8 Operating Segments requires the Group to determine its operating segments based on information which is provided internally. Based on the internal reporting information and management structures within the Group, it has been determined that there are three geographic operating segments supported by two centralised cost segments. Reporting on this basis is reviewed by the Global Leadership Team ("GLT"), which is the chief operating decision maker ("CODM"). The GLT is made up of the Executive Directors and key management and is responsible for the strategic decision making of the Group.

The five reportable segments consist of the three geographic segments: the United Kingdom, the United States and Developing Markets, plus the two centralised cost segments: global product development and corporate costs. The Developing Markets segment includes the Group's less mature marketplaces in Germany and the Netherlands.

The GLT measures the performance of each segment by reference to a non-GAAP measure, adjusted EBITDA, which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items (comprising IPO costs). Together with operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better interpretation of the underlying performance of the business.

Capital expenditure is predominantly managed centrally and depreciation and amortisation are not allocated to individual segments for decision making and accordingly have not been allocated to segments.

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| **Revenue from continuing operations** | | |
| United Kingdom | 93.6 | 68.4 |
| United States | 37.1 | 22.3 |
| Developing Markets | 11.2 | 3.8 |
| **Total revenue** | 141.9 | 94.5 |

During 2017 management took the decision to cease originating loans to property developers. This activity only took place in the United Kingdom and to aid interpretation of revenue trends the following analysis is provided:

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| **Supplementary analysis** | | |
| Other business loans | 93.2 | 65.3 |
| Property loans | 0.4 | 3.1 |
| **United Kingdom revenue** | 93.6 | 68.4 |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 4. Segmental information continued

### Adjusted EBITDA and operating loss

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| United Kingdom | 21.8 | 16.9 |
| United States | (7.4) | (10.9) |
| Developing Markets | (7.4) | (9.9) |
| Segment adjusted EBITDA | 7.0 | (3.9) |
| Product development | (24.5) | (13.6) |
| Corporate costs | (11.0) | (7.6) |
| Adjusted EBITDA | (28.5) | (25.1) |
| Depreciation and amortisation | (8.2) | (6.8) |
| Share-based payments and social security costs | (8.6) | (4.4) |
| Foreign exchange loss | (0.4) | (0.6) |
| Exceptional items | (5.9) | – |
| Operating loss | (51.6) | (36.9) |

### Revenue by type

In addition to the segmental reporting of revenue, the table below sets out revenue by its type:

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Transaction revenue | 112.9 | 76.5 |
| Servicing revenue | 24.9 | 17.1 |
| Other revenue | 4.1 | 0.9 |
| | 141.9 | 94.5 |

## 5. Operating expenses

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Depreciation | 2.1 | 1.6 |
| Amortisation | 6.1 | 5.2 |
| Impairment of intangible assets | – | 0.5 |
| Rental income and other recharges | (0.8) | (1.2) |
| Operating lease rentals: | | |
| – Other assets | 0.1 | 0.1 |
| – Land and buildings | 5.2 | 4.8 |
| Employment costs (including contractors) | 79.2 | 52.3 |
| Marketing costs (excluding employment costs) | 57.8 | 38.7 |
| Data and technology | 9.2 | 6.5 |
| Expected credit losses | 2.6 | – |
| Foreign exchange loss | 0.4 | 0.6 |
| Exceptional items | 5.9 | – |
| Other expenses | 25.7 | 22.3 |
| Total operating expenses | 193.5 | 131.4 |

Exceptional items relate to adviser costs associated with the IPO. IPO costs of £5.9 million recognised in the profit and loss represent the portion of directly attributable costs relating to the secondary shares traded on admission and other costs attributable to the listing. Further IPO costs of £9.1 million have been deducted from share premium.

## 5. Operating expenses continued

### Auditors' remuneration

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Audit fees | | |
| – Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements | 0.2 | 0.1 |
| – Fees payable to the Company's auditors and its associates for the statutory audit of the accounts of subsidiaries of the Company | 0.2 | 0.3 |
| Total audit fees | 0.4 | 0.4 |
| Audit-related fees | | |
| – Audit-related assurance services | 0.1 | 0.1 |
| Total audit-related fees | 0.1 | 0.1 |
| Non-audit fees | | |
| – Tax compliance services | 0.1 | 0.1 |
| – Reporting accountant fees in connection with the IPO | 2.0 | – |
| Total non-audit fees | 2.1 | 0.1 |

## 6. Remuneration of key management personnel

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Wages and salaries | 0.9 | 0.3 |
| Share-based payments | 1.6 | 1.1 |

The Directors of the Company are also the key management personnel of the Group. Further details on Directors' remuneration are shown in the Directors' Remuneration Report in the Corporate Governance section of the Annual Report and Accounts.

## 7. Employees

The average monthly number of employees (including Directors) during the year were:

| | 2018 Number | 2017 Number |
|---|---|---|
| Product and technology | 232 | 185 |
| Operations, support and administrative | 722 | 534 |
| | 954 | 719 |

In addition to the employees above, the average monthly number of contractors during the year was 50 (2017: 20).

Employment costs (including Directors' emoluments) during the year were:

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Wages and salaries | 68.7 | 50.6 |
| Social security costs | 7.0 | 5.3 |
| Pension costs | 0.5 | 0.2 |
| Share-based payments | 8.6 | 4.4 |
| | 84.8 | 60.5 |
| Contractor costs | 5.2 | 1.9 |
| Less: capitalised development costs | (10.8) | (10.1) |
| Employment costs net of capitalised development costs | 79.2 | 52.3 |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 8. Finance income

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Interest receivable | 0.9 | 0.6 |

## 9. Income tax

The Group is subject to all taxes applicable to a commercial company in its countries of operation. The UK profits of the Company are subject to UK income tax at the standard corporation tax rate of 19.00% (2017: 19.25%).

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Current tax | | |
| Research and development tax credit | (1.4) | (1.0) |
| Total current tax | (1.4) | (1.0) |
| Total tax credit | (1.4) | (1.0) |

The Group credit for the year can be reconciled to the loss before tax shown per the consolidated statement of comprehensive income as follows.

### Factors affecting the tax credit for the year

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Loss before taxation | (50.7) | (36.3) |
| Taxation on loss at 19.00% (2017: 19.25%) | (9.6) | (7.0) |
| Effects of: | | |
| Research and development tax credit | (1.4) | (1.0) |
| Non-deductible expenses | 1.5 | 0.2 |
| Temporary differences not recognised | 8.1 | 6.8 |
| Tax credit | (1.4) | (1.0) |

The Group's profits are taxed at different rates depending on the country in which the profits arise. The key applicable tax rates include the UK (19%), the US (27%), Germany (40.5%) and the Netherlands (25%). The effective tax rate for the year was 2.8% (2017: 2.8%).

The statutory UK corporation tax rate is currently 19%, effective from 1 April 2017 (reduced from 20% previously). Note, this rate will be further reduced in future periods to 17% (effective from 1 April 2020 and was substantively enacted on 6 December 2016). In addition, the US federal tax rate has been revised from 35% to 21%. On 22 December 2017, legislation was enacted that the reduced federal rate would be effective from 1 January 2018. Deferred tax has been determined using the applicable effective future tax rate that will apply in the expected period of utilisation of the deferred tax asset or liability.

### Recognition of deferred tax assets and liabilities

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Property, plant and equipment | (3.0) | (4.5) |
| Carry forward losses | 45.9 | 44.9 |
| Deferred stock options | 0.1 | – |
| Unrecognised deferred tax asset at 31 December 2018 | 43.0 | 40.4 |

The Group has unrelieved tax losses of £182.3 million (2017: £130.0 million) that are available for offset against future taxable profits. The Group has not recognised a deferred tax asset in respect of these losses as there is not sufficient visibility of suitable profits being generated to utilise these losses.

### Factors affecting the tax charge in future years

Factors that may affect the Group's future tax charge include the geographic location of the Group's earnings, the tax rates in those locations, changes in tax legislation and the use of brought forward tax losses. The calculation of the Group's total tax charge involves a degree of estimation and judgement with respect to the recognition of any deferred tax asset.

## 10. Loss per share

Basic loss per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

There is no difference in the weighted average number of shares used in the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

The following table reflects the income and share data used in the basic and diluted loss per share computations:

| | 31 December 2018 £m | 31 December 2017 £m (restated) |
|---|---|---|
| Loss for the year | (49.3) | (35.3) |
| Weighted average number of ordinary shares in issue (million) | 271.3 | 251.9 |
| Basic and diluted loss per share | (18.2p) | (14.0p) |

The comparative basic and diluted loss per share have been restated as the previous calculation had incorrectly used total comprehensive loss for the year rather than loss for the year.

## 11. Goodwill

| | Total £m |
|---|---|
| **Cost and carrying amount** | |
| At 1 January 2017 | 41.4 |
| Exchange differences | (0.1) |
| At 31 December 2017 | 41.3 |
| At 1 January 2018 | 41.3 |
| Exchange differences | 1.0 |
| At 31 December 2018 | 42.3 |

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. At the balance sheet date, the Group had two CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries and Funding Circle Continental Europe ("FCCE") and its subsidiaries to which goodwill is attached. The goodwill associated with each CGU is shown below.

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| FCUSA | 11.7 | 11.0 |
| FCCE | 30.6 | 30.3 |
| Total | 42.3 | 41.3 |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 11. Goodwill continued

The Group performed its annual impairment test on the goodwill arising on the acquisition of FCUSA and FCCE. The impairment test involved comparing the carrying value of the assets held for use to their recoverable amount. The recoverable amount represents the higher of the entity's fair value net of selling costs and its value in use.

The impairment was assessed under both the fair value net of selling costs and value in use calculations. The fair value review took into account the current market value of the Group segmented against each CGU.

The Group prepares a five-year management plan for its operations, which is used in the value in use calculations. The cash flow projections are based on the following key assumptions:

- revenue growth at a compound annual growth rate of 45% and 73% for FCUSA and FCCE respectively;
- pre-tax discount rate of 11.8% and 13.3% for FCUSA and FCCE respectively; and
- revenues beyond the five-year period are extrapolated using an estimated growth rate of 2.0% for both CGUs.

The above assumptions are based on historical trends and future market expectations.

The review did not identify any impairment to the goodwill due to adequate headroom of expected recoverable amount over carrying amount. There are no CGUs for which management considers a reasonably possible change in a key assumption would give rise to an impairment. However, as the FCCE CGU is less established further sensitivity analysis was performed. The forecast EBITDA was reduced by 50% in each year from 2022 and reduced the long-term growth rate to zero. The resultant value in use would still exceed the carrying value of the FCCE CGU by over 25%.

## 12. Intangible assets

| | Capitalised development costs £m | Computer software £m | Other intangibles £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 13.8 | 0.2 | 1.3 | 15.3 |
| Exchange differences | (0.4) | – | – | (0.4) |
| Additions | 10.1 | 0.4 | – | 10.5 |
| Impairment | (0.5) | – | – | (0.5) |
| At 31 December 2017 | 23.0 | 0.6 | 1.3 | 24.9 |
| At 1 January 2018 | 23.0 | 0.6 | 1.3 | 24.9 |
| Exchange differences | 0.8 | – | – | 0.8 |
| Reclassification | 0.5 | – | – | 0.5 |
| Additions | 10.8 | 0.2 | – | 11.0 |
| Disposals | (0.9) | – | – | (0.9) |
| **At 31 December 2018** | **34.2** | **0.8** | **1.3** | **36.3** |
| **Accumulated amortisation** | | | | |
| At 1 January 2017 | 2.8 | 0.2 | 0.6 | 3.6 |
| Exchange differences | (0.1) | – | – | (0.1) |
| Charge for the year | 4.6 | 0.1 | 0.5 | 5.2 |
| At 31 December 2017 | 7.3 | 0.3 | 1.1 | 8.7 |
| At 1 January 2018 | 7.3 | 0.3 | 1.1 | 8.7 |
| Exchange differences | 0.4 | – | – | 0.4 |
| Reclassification | 0.5 | – | – | 0.5 |
| Charge for the year | 6.1 | – | – | 6.1 |
| Disposals | (0.9) | – | – | (0.9) |
| **At 31 December 2018** | **13.4** | **0.3** | **1.1** | **14.8** |
| **Carrying amount** | | | | |
| **At 31 December 2018** | **20.8** | **0.5** | **0.2** | **21.5** |
| At 31 December 2017 | 15.7 | 0.3 | 0.2 | 16.2 |

## 13. Property, plant and equipment

| | Leasehold improvements £m | Computer equipment £m | Furniture and fixtures £m | Total £m |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 4.1 | 2.0 | 1.5 | 7.6 |
| Reclassifications | — | 0.1 | (0.1) | — |
| Additions | 0.2 | 0.8 | 0.2 | 1.2 |
| At 31 December 2017 | 4.3 | 2.9 | 1.6 | 8.8 |
| At 1 January 2018 | 4.3 | 2.9 | 1.6 | 8.8 |
| Additions | 1.0 | 1.1 | 0.6 | 2.7 |
| At 31 December 2018 | 5.3 | 4.0 | 2.2 | 11.5 |
| **Accumulated depreciation** | | | | |
| At 1 January 2017 | 0.5 | 1.3 | 0.7 | 2.5 |
| Charge for the year | 0.5 | 0.7 | 0.4 | 1.6 |
| At 31 December 2017 | 1.0 | 2.0 | 1.1 | 4.1 |
| At 1 January 2018 | 1.0 | 2.0 | 1.1 | 4.1 |
| Charge for the year | 0.7 | 1.0 | 0.4 | 2.1 |
| At 31 December 2018 | 1.7 | 3.0 | 1.5 | 6.2 |
| **Carrying amount** | | | | |
| At 31 December 2018 | 3.6 | 1.0 | 0.7 | 5.3 |
| At 31 December 2017 | 3.3 | 0.9 | 0.5 | 4.7 |

The Group does not have any fixed assets under finance lease.

## 14. Investments

### Investment in loan securities

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Investment in loan securities under cure period | 4.7 | 3.1 |
| Investment in loan securities | 0.3 | 0.3 |
| | 5.0 | 3.4 |

## 15. Trade and other receivables

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Trade receivables | 1.2 | 1.7 |
| Other receivables | 6.5 | 2.6 |
| Prepayments | 6.0 | 3.7 |
| Accrued income | 3.6 | 0.9 |
| Rent and other deposits | 5.7 | 4.5 |
| | 23.0 | 13.4 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables described earlier.

No trade receivables were overdue or impaired.

Included in rent and other deposits are £2.9 million of rental deposits (2017: £2.8 million) in respect of the Group's property leases which expire over the next five years.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 16. Trade and other payables

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Trade payables | 2.8 | 2.4 |
| Other taxes and social security costs | 5.5 | 0.2 |
| Other creditors | 1.2 | 0.6 |
| Accruals | 13.6 | 8.3 |
| Preferred dividends payable | — | 0.5 |
| | 23.1 | 12.0 |

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 17. Provisions

| | Dilapidation £m | Credit loss provision £m | Other provisions £m | Total £m |
|---|---|---|---|---|
| At 1 January 2017 | 0.4 | 0.1 | 0.6 | 1.1 |
| Additional provision | — | 2.4 | 0.2 | 2.6 |
| Amount utilised | — | (1.2) | — | (1.2) |
| At 31 December 2017 | 0.4 | 1.3 | 0.8 | 2.5 |
| IFRS 9 opening balance restatement | — | 1.2 | — | 1.2 |
| Additional provision | 0.4 | 2.6 | 1.0 | 4.0 |
| Amount utilised | — | (2.0) | (1.1) | (3.1) |
| At 31 December 2018 | 0.8 | 3.1 | 0.7 | 4.6 |

| | At 31 December 2018 £m | At 31 December 2017 £m |
|---|---|---|
| Current | 3.8 | 2.1 |
| Non-current | 0.8 | 0.4 |
| | 4.6 | 2.5 |

The dilapidation provision represents an estimated cost for dismantling the customisation of offices and restoring the leasehold premises to its original state at the end of the tenancy period. The provision is expected to be utilised by 2025.

### Credit loss provision

In certain circumstances, in the less mature markets, Funding Circle has entered into arrangements with institutional investors to guarantee the credit risk on the loan investments made by the institutional investors. Under the terms of the agreements, the Group is required either to make payments when the underlying borrower fails to meet its obligation under the loan contract or buy the defaulted loan from the investors at its carrying value. In return for these financial guarantees, the Group is entitled to the excess returns or additional income which is recorded as other revenue. Since the commencement of these agreements, other income has exceeded the costs of providing these financial guarantees and the expectation is that in the majority of scenarios modelled by Funding Circle the income from these arrangements will exceed the investor incentive costs of buying back defaulted loans, which are treated as an operating expense.

Under IAS 37, a credit loss provision was recognised to cover the credit risk the Group is exposed to under such financial guarantees, measured using the incurred loss model as the best estimate of expenditure required to settle any financial obligation.

## 17. Provisions continued

### Credit loss provision continued

Under IFRS 9, which the Group adopted from 1 January 2018, the credit loss provision is measured and recognised in accordance with the expected credit loss ("ECL") model. This has resulted in an opening balance restatement, as well as a higher charge to comprehensive income for 2018 than would have occurred under IAS 37.

The provision related to each loan arranged is based on the ECLs associated with the probability of default of that loan in the next 12 months unless there has been a significant increase in credit risk of that loan since origination. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the loan investment exceed 30 days, in line with the rebuttable presumption per IFRS 9.

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date. Under the financial guarantee contracts, this is the point at which there is an obligation for the Group to make a payment under the contract or buy back the loan. If the loan is bought back by the Group, at the point of buy back, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the reserve is therefore based on lifetime ECLs.

The Group bands each loan investment using an internal risk rating and assesses credit losses on a collective basis.

| | Performing: 12-month ECL £m | Underperforming: lifetime ECL £m | Non-performing: lifetime ECL £m | Total £m |
|---|---|---|---|---|
| Opening credit loss provisions at 1 January 2018 | 1.6 | 0.3 | 0.6 | 2.5 |
| Provision against new loans originated | 1.8 | 0.3 | – | 2.1 |
| Provision against loans transferred from performing | (0.1) | 0.1 | 1.6 | 1.6 |
| Amounts utilised | – | – | (2.0) | (2.0) |
| Loans repaid | (0.4) | – | – | (0.4) |
| Change in probability of default | (0.8) | 0.1 | – | (0.7) |
| **Closing credit loss provisions at 31 December 2018** | **2.1** | **0.8** | **0.2** | **3.1** |

| At 1 January 2018 | Expected credit loss rate % | Basis for recognition of expected credit loss provision | Credit loss provision £m |
|---|---|---|---|
| Performing | 4 | 12-month ECL | 1.6 |
| Underperforming | 59 | Lifetime ECL | 0.3 |
| Non-performing | 100 | Lifetime ECL | 0.6 |
| | | Total | 2.5 |

| At 31 December 2018 | Expected credit loss rate % | Basis for recognition of expected credit loss provision | Credit loss provision £m |
|---|---|---|---|
| Performing | 1 | 12-month ECL | 2.1 |
| Underperforming | 67 | Lifetime ECL | 0.8 |
| Non-performing | 100 | Lifetime ECL | 0.2 |
| | | Total | 3.1 |

The percentages applied above are based on the Group's past experience as well as forward-looking information, namely: macroeconomic forecasts such as changes in interest rates, GDP and inflation; delinquencies; and loss trends.

The items that the model is most sensitive to are delinquencies and loss trends.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 18. Share capital

| | 31 December 2018 Number | 31 December 2018 £ | 31 December 2017 Number | 31 December 2017 £ |
|---|---|---|---|---|
| **Called up, allotted and fully paid** | | | | |
| Ordinary shares of £0.001 | 346,033,078 | 346,034 | 83,186,146 | 83,186 |
| A ordinary shares of £0.00001 | – | – | 1,439,625 | 14 |
| B ordinary shares of £0.00001 | – | – | 650,000 | 7 |
| C ordinary shares of £0.00001 | – | – | 5,857,600 | 59 |
| D ordinary shares of £0.00001 | – | – | 1,068,850 | 10 |
| E ordinary shares of £0.00001 | – | – | 6,063,840 | 61 |
| Series A preferred shares of £0.001 | – | – | 27,392,200 | 27,392 |
| Series B preferred shares of £0.001 | – | – | 31,492,900 | 31,493 |
| Series C preferred shares of £0.001 | – | – | 32,520,500 | 32,521 |
| Series D preferred shares of £0.001 | – | – | 25,595,700 | 25,596 |
| Series E preferred shares of £0.001 | – | – | 31,432,400 | 31,432 |
| Series F preferred shares of £0.001 | – | – | 23,672,990 | 23,672 |
| Deferred shares of £0.00001 | – | – | 2,664,461 | 27 |
| | 346,033,078 | 346,034 | 273,037,212 | 255,470 |

On 19 September 2018, the Company was re-registered as a public company limited by shares in England and Wales and accordingly the Articles of Association of the Company were amended to the extent required to give effect to the re-registration.

As part of the re-alignment of the share capital, the following steps took place:

- for each A, B, C, D and E ordinary share held, the Company issued 99 bonus shares of the relevant class with a nominal value of £0.00001 to each of the existing holders of the those shares; and
- each 100 A, B, C, D and E ordinary shares with a nominal value of £0.00001 were then consolidated into 1 A, B, C, D or E ordinary share (as appropriate) with a nominal value of £0.001.

Immediately prior to the IPO the following transactions occurred:

- each of the A, B, C, D and E ordinary shares was converted into ordinary shares on a one-to-one basis;
- each series of preferred shares was converted into ordinary shares on a one-to-one basis;
- the Company redeemed all outstanding deferred shares; and
- the Company paid the accrued Series A preferred shares dividend of £0.5 million.

On 29 September 2018 the Company's shares were admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange (the "Listing"). In conjunction 68,193,863 new £0.001 ordinary shares at a price of £4.40 per ordinary share were issued as part of the IPO.

During 2018, the Company issued a further 7,494,589 ordinary shares of £0.001 ranking pari passu with ordinary shares in issue (2017: 1,221,173) on the exercise of employee share options, giving rise to total share premium of £1.0 million (2017: £0.2 million). During the same period, 28,125 C ordinary shares were redesignated as deferred shares.

Included in the total number of ordinary shares outstanding above are 5,043,359 (2017: nil) shares held by the Group's employee benefit trust.

## 19. Share premium account

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Balance at 1 January | 278.0 | 196.0 |
| Premium arising on issue of Series F preferred shares | – | 81.9 |
| Transaction costs – Series F preferred share issue | – | (0.1) |
| Capital reduction | (278.1) | – |
| Premium arising on IPO | 300.0 | – |
| Transaction costs associated with the issue of new shares | (9.1) | – |
| Exercise of options – proceeds received | 1.0 | 0.2 |
| | 291.8 | 278.0 |

On 28 August 2018, the Company undertook a capital reduction using the solvency statement procedure to reduce its share premium account by £278.1 million, in order to eliminate its deficit on distributable reserves.

Costs of £9.1 million related to the issue of new shares have been deducted from the share premium account.

## 20. Foreign exchange reserve

| | £m |
|---|---|
| Balance at 1 January 2017 | 15.2 |
| Exchange difference on translating the net assets of foreign operations | (1.9) |
| Balance at 31 December 2017 | 13.3 |
| Exchange difference on translating the net assets of foreign operations | 2.4 |
| Balance at 31 December 2018 | 15.7 |

Exchange differences relating to the translation of the net assets of the Group's subsidiaries from their functional currency into the Company's functional currency are recognised directly in the foreign exchange reserves within equity.

## 21. Retained earnings/(accumulated losses)

| | £m |
|---|---|
| Balance at 1 January 2017 | (116.7) |
| Loss for the year | (35.3) |
| Balance at 31 December 2017 | (152.0) |
| Adjustment on adoption of IFRS 9 at 1 January 2018 | (1.2) |
| Capital reduction | 278.1 |
| Transfer of share option costs | 13.0 |
| Loss for the year | (49.3) |
| Balance at 31 December 2018 | 88.6 |

The transfer of share option costs is in relation to the exercise of share options during the year and their associated costs in the share options reserve which are transferred to retained earnings.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 22. Share-based payment

The Company operates share schemes for all employees of the Group. The terms of the main current schemes from which the Group's employees benefit are set out below.

Participants who hold vested Pre-IPO Options may exercise their Pre-IPO Options following admission. Unvested Pre-IPO Options will continue to vest according to their current service condition schedule.

### Post-IPO Employee Share Plan

Since the Company's admission on the London Stock Exchange, the Company operates a single discretionary share-based long-term incentive plan ("LTIP"). The main features of the LTIP are set out below.

#### Form of LTIP Awards

The Board grants awards in the form of: restricted stock units at no cost; or options to acquire shares at no cost (a nil-cost option).

#### Performance conditions

LTIP Awards are not currently subject to performance conditions. The vesting of LTIP Awards granted in the future to Executive Directors will be subject to performance conditions. Refer to the Remuneration Report for further details.

Any performance condition may be amended or substituted if one or more events occur which cause the Board to reasonably consider that an amended or substituted performance condition would be more appropriate and would not be materially less difficult to satisfy than originally intended.

#### Vesting and release of LTIP Awards

LTIP Awards currently vest subject to continued service only ("Time Based Vesting") in accordance with a vesting schedule set at grant.

The Board may determine at grant that an LTIP Award is subject to an additional holding period following vesting (a "Holding Period"). LTIP Options will be exercisable from the date of vest or, if applicable, the end of the Holding Period until the tenth anniversary of the grant date, or such earlier date as the Board determines.

#### Cessation of employment

LTIP Options may normally be exercised to the extent vested for a period of six months after ceasing employment or 12 months after death (or such other period as the Board may determine).

### Pre-IPO Employee Share Plans

#### EMI Options

Prior to June 2014, the Company issued options to UK subsidiary undertakings' employees under the EMI Options scheme. Since then, the Company is not eligible to issue under the scheme.

#### Unapproved Options

The Company has an unapproved option scheme for all employees of the Group. In accordance with standard vesting terms, the full award will vest four years after the vesting start date, with 25% vesting on the first anniversary of the vesting date and 6.25% every three months thereafter. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

#### US Options Scheme 2

Options granted under the "US Options Scheme 2" are unapproved options granted to US employees as either non-qualifying options or incentive stock options. The US Options Scheme 2 has the same vesting period as Unapproved Options. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Unvested options are forfeited if the employee leaves the Group before the options vest.

## 22. Share-based payment continued

### Pre-IPO Employee Share Plans continued

#### ESS Shares with "shadow" Unapproved Options

To subscribe for the ESS Shares, employees had to give up certain employment rights. ESS shares are an upfront award of A or C ordinary shares with a nominal value of £0.00001 per share where the ability to receive dividends and a capital return from the shares is conditional on the achievement of a performance target (namely, the growth of the enterprise value of the business beyond a hurdle). According to the terms and conditions, the performance target differs depending on the underlying share.

If this performance target is met, the participants will profit from the whole of the value of the business, not just the growth from the date of the award, on the same basis as the ordinary shares.

The ESS Shares also have a right of redemption – the employee has the option to redeem those shares for a fixed cash amount in the first three months post grant date. Note that the cash amount received depends on the number of ESS Shares granted.

The ESS Shares are each issued in conjunction with a "shadow" Unapproved Option. The Unapproved Option can be exercised if the relevant enterprise value hurdle is not met upon an exit event. Both the ESS Shares and the "shadow" Unapproved Options vest according to the Company's standard vesting terms, as discussed in the description of Unapproved Options above. ESS shares have not been available for issue since 1 December 2017.

#### Growth Shares with "shadow" Unapproved Options

Growth Shares are an upfront award of B, D or E ordinary shares with a nominal value of £0.00001 per share where the ability to receive dividends and a capital return from the shares is conditional on the achievement of a performance target (namely, the growth of the enterprise value of the business beyond a hurdle). According to the terms and conditions, the performance target differs depending on the underlying share.

If this performance target is met, the participants will profit from the whole of the value of the business, not just the growth from the date of the award, on the same basis as the ordinary shares.

The Growth Shares are each issued in conjunction with a "shadow" Unapproved Option. The Unapproved Option can be exercised if the applicable enterprise value hurdle is not met upon an exit event. Both the Growth Shares and the "shadow" Unapproved Options vest according to the Company's standard vesting terms, as discussed in the description of Unapproved Options above.

All share-based incentives are subject to service conditions. Such conditions are not taken into account in the fair value of the service received. The fair value of services received in return for share-based incentives is measured by reference to the fair value of share-based incentives granted. The estimate of the fair value of the share-based incentives is measured using either the Monte Carlo or Black-Scholes pricing model as is most appropriate for each scheme.

### Charge for the year

Included in operating expenses of the Group is a charge for share-based payments and associated social security costs of £8.6 million (2017: £4.4 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 22. Share-based payment continued

### Movements in share plans

Details of movements in the share schemes during the year are as follows:

| | EMI Options | | Unapproved Options | | ESS and Growth Shares | | US Options Scheme | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number and WAEP[1] | | Number and WAEP | | Number and WAEP | | Number and WAEP | | Number and WAEP | |
| | Number | £ | Number | £ | Number | £ | Number | £ | Number | £ |
| Outstanding at 1 January 2017 | 3,648,537 | 0.027 | 6,973,509 | 0.222 | 9,016,075 | 0.333 | 5,895,451 | 0.247 | 25,533,572 | 0.239 |
| Granted during the period | – | – | 2,489,508 | 0.404 | 6,063,840 | 0.400 | 2,013,993 | 0.400 | 10,567,341 | 0.401 |
| Exercised during the period | (399,411) | 0.027 | (122,112) | 0.300 | – | – | (974,668) | 0.296 | (1,496,191) | 0.224 |
| Forfeited during the period | (9,376) | 0.027 | (527,634) | (0.381) | – | – | (551,756) | 0.506 | (1,088,766) | 0.441 |
| Outstanding at 31 December 2017 | 3,239,750 | 0.027 | 8,813,271 | 0.262 | 15,079,915 | 0.360 | 6,383,020 | 0.265 | 33,515,956 | 0.284 |

| | EMI Options | | Unapproved Options | | ESS and Growth Shares | | LTIP Awards | | US Options Scheme | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number and WAEP | | Number and WAEP | | Number and WAEP | | Number and WAEP | | Number and WAEP | | Number and WAEP | |
| | Number | £ | Number | £ | Number | £ | Number | £ | Number | £ | Number | £ |
| Outstanding at 1 January 2018 | 3,239,750 | 0.027 | 8,813,271 | 0.262 | 15,079,915 | 0.360 | – | – | 6,383,020 | 0.265 | 33,515,956 | 0.284 |
| Granted during the period | – | – | 4,716,312 | 0.362 | – | – | 1,418,196 | – | 2,137,787 | 0.857 | 8,272,295 | 0.428 |
| Exercised during the period | (2,605,831) | 0.027 | (3,490,423) | 0.180 | – | – | – | – | (1,398,335) | 0.373 | (7,494,589) | 0.163 |
| Forfeited during the period | (3,007) | 0.027 | (945,320) | 0.443 | (28,125) | 0.390 | – | – | (742,361) | 0.554 | (1,718,813) | 0.489 |
| Converted on IPO | – | – | – | – | (15,051,790) | 0.360 | – | – | – | – | (15,051,790) | 0.360 |
| Outstanding at 31 December 2018 | 630,912 | 0.027 | 9,093,840 | 0.327 | – | – | 1,418,196 | – | 6,380,111 | 0.406 | 17,523,059 | 0.319 |

1. Weighted average exercise price.

The following table summarises information about the share awards outstanding at 31 December 2018:

| | EMI Options | | Unapproved Options | | LTIP Awards | | US Options | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number and WARCL[2] | | Number and WARCL | | Number and WARCL | | Number and WARCL | | Number and WARCL | |
| Range of exercise prices | Number | Years | Number | Years | Number | Years | Number | Years | Number | Years |
| £0–£0.008 | – | – | 2,836,209 | 9.4 | 1,418,196 | 9.9 | 874,545 | 9.9 | 5,128,950 | 9.5 |
| £0.009–£0.176 | 630,912 | 4.7 | 811,983 | 3.1 | – | – | 84,262 | 2.6 | 1,527,157 | 3.7 |
| £0.177–£0.471 | – | – | 4,916,338 | 9.0 | – | – | 4,176,287 | 7.4 | 9,092,625 | 8.3 |
| £0.472–£1.75 | – | – | 529,310 | 9.5 | – | – | 1,245,017 | 7.8 | 1,774,327 | 8.3 |
| | 630,912 | 4.7 | 9,093,840 | 8.6 | 1,418,196 | 9.9 | 6,380,111 | 7.7 | 17,523,059 | 8.3 |

The following table summarises information about the share awards outstanding at 31 December 2017:

| | EMI Options | | Unapproved Options | | ESS and Growth Shares | | US Options | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number and WARCL | | Number and WARCL | | Number and WARCL | | Number and WARCL | | Number and WARCL | |
| Range of exercise prices | Number | Years | Number | Years | Number | Years | Number | Years | Number | Years |
| £0.001–£0.008 | – | – | 672,336 | 7.8 | 7,297,225 | 7.7 | – | – | 7,969,561 | 7.7 |
| £0.008–£0.043 | 3,239,750 | 5.0 | 2,025,500 | 6.3 | 2,568,850 | 8.4 | 247,528 | 6.0 | 8,081,628 | 6.4 |
| £0.043–£0.279 | – | – | 438,185 | 7.0 | 5,213,840 | 9.6 | 2,719,890 | 7.1 | 8,371,915 | 8.7 |
| £0.279-£0.390 | – | – | 5,677,250 | 8.8 | – | – | 3,415,602 | 9.0 | 9,092,852 | 8.9 |
| | 3,239,750 | 5.0 | 8,813,271 | 8.0 | 15,079,915 | 8.4 | 6,383,020 | 8.1 | 33,515,956 | 7.9 |

2. Weighted average remaining contractual life.

## 22. Share-based payment continued

### Unapproved Options Scheme

The weighted average fair values of options granted under the Unapproved Options Scheme and the US Options Scheme range between £0.73 and £1.80 (2017: £0.23 and £0.25) per option respectively. These values were determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

| Unapproved Options Scheme | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Share price (various times during the year) | £1.89 | £0.520 and £0.55 |
| Exercise price | £nil–£0.44 | £0.40 |
| Expected life | 4 years | 4 years |
| Expected volatility | 48% | 45% |
| Risk-free interest rate (between) | 0.93% and 1.02% | 0.28% and 0.68% |
| Dividend yield | Nil | Nil |
| Forward exchange rate – US Options (between) | 0.769 | 0.746 and 0.751 |

### LTIP Awards

Since all LTIP awards were made post-IPO, the Company has used its share price as the fair value of the LTIP Awards granted during the year.

### ESS Shares and Growth Shares with “shadow” Unapproved Options

There were no ESS Shares or Growth Shares with “shadow” Unapproved Options granted during the period. The IPO valuation exceeded the valuation thresholds pertaining to in issue ESS Shares and Growth Shares and therefore, immediately prior to the IPO, the ESS Shares and Growth Shares were converted into ordinary shares as part of the reorganisation (see note 18) and the attached shadow options were lapsed.

In determining the fair value of such shadow options granted in the prior period, the Monte Carlo simulation model was used with the following inputs:

| ESS and Growth | 31 December 2017 |
|---|---|
| Exercise price | £0.40 |
| Expected life | 1 year |
| Expected volatility | 45% |
| Risk-free interest rate (between) | 0.38% and 0.62% |
| Dividend yield | Nil |

## 23. Notes to the consolidated statement of cash flows

### Cash outflow from operations

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Loss before taxation | (50.7) | (36.3) |
| Adjustments for | | |
| Depreciation of property, plant and equipment | 2.1 | 1.6 |
| Amortisation of intangible assets | 6.1 | 5.2 |
| Impairment of intangible assets | — | 0.5 |
| Interest receivable | (0.9) | (0.6) |
| Non-cash employee benefits expense – share-based payments and associated social security costs | 8.1 | 4.4 |
| IPO costs presented in financing activities | 5.9 | — |
| Tax credit received | 1.4 | 1.0 |
| Movement in provisions | 0.2 | — |
| Changes in working capital | | |
| Movement in trade and other receivables | (9.3) | (2.9) |
| Movement in trade and other payables | 8.6 | 4.5 |
| Net cash outflow from operating activities | (28.5) | (22.6) |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 23. Notes to the consolidated statement of cash flows continued

### Cash and cash equivalents

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Cash and cash equivalents | 333.0 | 88.9 |

The cash and cash equivalents balance is made up of cash, money market funds and bank deposits. The carrying amount of these assets is approximately equal to their fair value. Included within cash and cash equivalents above is restricted cash of £0.4 million (2017: £0.4 million). At 31 December 2018, money market funds totalled £150.0 million (2017: £nil).

### Analysis of changes in net funds

| | 1 January 2018 £m | Cash flow £m | Exchange movements £m | 31 December 2018 £m |
|---|---|---|---|---|
| Cash and cash equivalents | 88.9 | 243.6 | 0.5 | 333.0 |

## 24. Operating lease arrangements

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Lease payments under operating leases recognised as an expense in the year | 5.3 | 4.9 |

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Within one year | 6.2 | 5.0 |
| In the second to fifth year inclusive | 19.6 | 16.6 |
| After five years | 3.5 | 6.3 |
| | 29.3 | 27.9 |

Operating lease payments represent rentals payable by the Group for its office properties and plant and machinery rental.

## 25. Dividends per share

The Company paid the outstanding cumulative Series A preferred dividends of £0.5 million prior to the 3 October 2018 IPO.

No other dividends were declared or paid in the current or previous financial periods.

## 26. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

During the year, the Group entered into, and successfully won, a competition run by Nesta, a charitable organisation, with a prize of £100,000 to develop a finance modelling template that can be used by small businesses. Ed Wray is currently a trustee of Nesta.

In previous years, the Group identified Funding Circle SME Income Fund Limited ("FCIF") as a related party by way of common directorship for Samir Desai. Samir Desai resigned as a Director of FCIF on 18 May 2017 and therefore from 2018 FCIF has ceased to be classified as a related party of the Group. The transaction amounts incurred for the periods covered in the consolidated financial statements and amounts receivable from FCIF are disclosed below:

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| **Receivable at 31 December** | | |
| Servicing fee | – | 0.1 |
| **Income during the year ended 31 December** | | |
| Servicing fee | – | 1.3 |
| Corporate services fee | – | 0.2 |
| Reimbursement of expenses | – | 0.2 |
| | – | 1.8 |

## 27. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

## 28. Contingent liabilities

There are currently no contingent liabilities expected to have a material adverse financial impact on the Group's consolidated financial statements.

## 29. Investment in subsidiaries

The Group had the following subsidiaries, all of which have been included in these consolidated financial statements. The proportion of the voting rights in subsidiary undertakings held directly by the Company does not differ from the proportion of ordinary shares held.

| Subsidiary undertakings | Place of incorporation | Proportion of ownership interest | Directly/ indirectly held | Registered office address |
|---|---|---|---|---|
| Funding Circle Ltd | UK | 100% | Directly | 71 Queen Victoria Street, London EC4V 4AY |
| Funding Circle Asset Finance Limited | UK | 100% | Indirectly | 71 Queen Victoria Street, London EC4V 4AY |
| Funding Circle Trustee Limited | UK | 100% | Indirectly | 71 Queen Victoria Street, London EC4V 4AY |
| Funding Circle Property Finance Limited | UK | 100% | Indirectly | 71 Queen Victoria Street, London EC4V 4AY |
| Funding Circle Global Partners Limited | UK | 100% | Directly | 71 Queen Victoria Street, London EC4V 4AY |
| Made To Do More Limited | UK | 100% | Indirectly | 71 Queen Victoria Street, London EC4V 4AY |
| Funding Circle USA, Inc. | USA | 100% | Directly | 747 Front Street, Floor 4, San Francisco, CA 94111 |
| Funding Circle Notes Program, LLC | USA | 100% | Indirectly | 747 Front Street, Floor 4, San Francisco, CA 94111 |
| Funding Circle Marketplace, LLC | USA | 100% | Indirectly | 747 Front Street, Floor 4, San Francisco, CA 94111 |
| FC Partners, LLC | USA | 100% | Indirectly | 747 Front Street, Floor 4, San Francisco, CA 94111 |
| Funding Circle Securities, LLC | USA | 100% | Indirectly | 747 Front Street, Floor 4, San Francisco, CA 94111 |
| Funding Circle Investor Funds, LLC | USA | 100% | Indirectly | 747 Front Street, Floor 4, San Francisco, CA 94111 |
| Funding Circle CE GmbH | Germany | 100% | Directly | Bergmannstraße 72, 10961 Berlin |
| Funding Circle Deutschland GmbH | Germany | 100% | Indirectly | Bergmannstraße 72, 10961 Berlin |
| Funding Circle Connect GmbH | Germany | 100% | Indirectly | Bergmannstraße 72, 10961 Berlin |
| FC Forderungsmanagement GmbH | Germany | 100% | Indirectly | Bergmannstraße 72, 10961 Berlin |
| Juwel 182 VV UG | Germany | 100% | Directly | Johannlsstratse 20, 10117 Berlin |
| Funding Circle Espana S.L. | Spain | 100% | Indirectly | Calle Claudio Coello 124, 28006 Madrid |
| Funding Circle Nederland B.V. | Netherlands | 100% | Indirectly | Gustav Mahlerplein 64b, ITO Toren, 1082 MA Amsterdam |

# Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2018

## 29. Investment in subsidiaries continued

### Interest in other entities

Stichting Derdengelden Funding Circle is not a direct or indirect subsidiary of Funding Circle Holdings plc but is an independent special purpose foundation which is required in the Netherlands to safeguard borrower and investor funds and is consolidated as it is controlled by the Group.

Funding Circle Holdings Employee Benefit Trust was established on 14 September 2018. The purpose of the Trust is to facilitate the acquisition of shares in the Company by, or for the benefit of, existing and future employees of the Company and Group subsidiaries and is consolidated as it is controlled by the Group.

The principal activities of the Group's most significant subsidiary undertakings are set out below. These are considered significant in the context of Group's business, results and financial position.

| Subsidiary undertakings | Principal activity |
|---|---|
| Funding Circle Ltd | Acts as facilitator and performs intermediary services in respect of all loans made through the Funding Circle platform in the UK. |
| Funding Circle USA, Inc. | The US operating subsidiary of Funding Circle. Acts as the administrator of the Funding Circle platform in the US. |
| Funding Circle Marketplace, LLC | Acts as originator and servicer of all loans made through the Funding Circle platform in the US. Funding Circle Marketplace LLC sells each loan it originates, on a servicing retained basis, to third-party institutional investors or to affiliates (e.g. Funding Circle Notes Program) on an arm's length basis. Funding Circle Marketplace LLC initially holds loans for a two to three days' cure period before selling the loan onto the investor or affiliate. |
| Funding Circle Notes Program, LLC | A special purpose bankruptcy remote entity which issues loan payment dependent debt securities to accredited investors. It uses the proceeds to purchase a specific corresponding loan made through the Funding Circle platform from Funding Circle Marketplace LLC. The entity retains the contractual rights to receive the cash flows from the loan assets it has purchased, but has assumed a contractual obligation to pay those cash flows to the holders of the debt securities. The eligibility criteria have been met to derecognise the loan assets and associated issued debt securities as a pass-through arrangement under IAS 39/IFRS 9. |
| Funding Circle CE GmbH | The Continental Europe operating subsidiary of Funding Circle. Facilitates development, marketing and provision of internet services to affiliated companies of FCCE Group (e-commerce concerning different goods). |
| Funding Circle Deutschland GmbH | Operates the Funding Circle platform in Germany and services loans. |
| Funding Circle Netherlands B.V. | Operates the Funding Circle platform in the Netherlands and services loans. |

# Independent auditors' report

to the members of Funding Circle Holdings plc

## Report on the audit of the Company financial statements

### Opinion

In our opinion, Funding Circle Holdings plc's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Company balance sheet as at 31 December 2018; the Company statement of changes in equity; and the Company statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

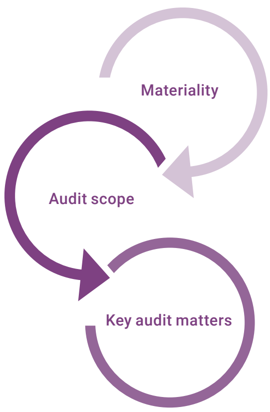
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the Group and its subsidiaries in the period from 1 January 2018 to 31 December 2018.

### Our audit approach

#### Overview




- Overall materiality: £5.7 million (2017: £2.8 million), based on 1% of total assets.

- We have audited the complete financial information of the Company.

- We have no key audit matters to report.

#### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

#### Capability of the audit in 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 the Listing Rules, 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. 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 the posting of inappropriate journals. Audit procedures performed by the engagement team included review of the Annual Report and Accounts with consideration to the Listing Rules and identifying and testing journal entries and period-end adjustments.

# Independent auditors' report continued

to the members of Funding Circle Holdings plc

## Report on the audit of the Company financial statements continued

### Our audit approach continued

#### Capability of the audit in detecting irregularities, including fraud continued

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

#### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We determined that there were no key audit matters applicable to the company to communicate in our report.

#### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Overall materiality | £5.7 million (2017: £2.8 million). |
| How we determined it | 1% of total assets. |
| Rationale for benchmark applied | We consider total assets to be the most appropriate benchmark to apply on the basis that the Company is a non-trading investment company that holds investment in the Group's trading businesses. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £280,000 (2017: £140,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Going concern

In accordance with ISAs (UK) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to.<br><br>However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy. |
| We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors' Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

## Report on the audit of the Company financial statements continued

### Reporting on other information continued

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 ("CA06"), ISAs (UK) and the Listing Rules of the Financial Conduct Authority ("FCA") require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

#### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

#### Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 46 to 83) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 46 to 83) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

#### The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or draw attention to regarding:

The Directors' confirmation on page 39 of the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.

The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

The Directors' explanation on page 44 of the Annual Report as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Company and its environment obtained in the course of the audit. (Listing Rules)

#### Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

The statement given by the Directors on page 61 that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company obtained in the course of performing our audit;

The section of the Annual Report on page 60 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

#### Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

# Independent auditors’ report continued

to the members of Funding Circle Holdings plc

## Report on the audit of the Company financial statements continued

### Responsibilities for the financial statements and the audit

#### Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors’ responsibilities in respect of the financial statements set out on page 83, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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.

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

#### Use of this report

This report, including the opinions, has been prepared for and only for the Company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors’ remuneration specified by law are not made; or
- the financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 4 August 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 31 December 2015 to 31 December 2018.

## Other matter

We have reported separately on the Group financial statements of Funding Circle Holdings plc for the year ended 31 December 2018.

**Brian Henderson (Senior Statutory Auditor)**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 March 2019

# Company balance sheet

as at 31 December 2018

| | Note | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiary undertakings | 4 | 264.6 | 201.8 |
| Loans due from subsidiary undertakings | 6 | 1.7 | 14.4 |
| | | 266.3 | 216.2 |
| **Current assets** | | | |
| Loans due from subsidiary undertakings | 6 | 0.1 | 0.1 |
| Trade and other receivables | 5 | 0.3 | 0.5 |
| Cash and cash equivalents | 10 | 303.7 | 63.1 |
| | | 304.1 | 63.7 |
| **Total assets** | | 570.4 | 279.9 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | 2.0 | 0.8 |
| **Total liabilities** | | 2.0 | 0.8 |
| **Equity** | | | |
| Share capital | 8 | 0.3 | 0.2 |
| Share premium account | 8 | 291.8 | 278.0 |
| Share options reserve | | 6.0 | 13.9 |
| Retained earning/(accumulated losses) | 9 | 270.3 | (13.0) |
| **Total equity** | | 568.4 | 279.1 |
| **Total equity and liabilities** | | 570.4 | 279.9 |

The Company's loss for the year was £7.8 million (2017: profit £0.2 million).

The financial statements on pages 131 to 140 were approved by the Board and authorised for issue on 7 March 2019. They were signed on behalf of the Board by:

**Sean Glithero**
Director

Company registration number 07123934

The notes on pages 134 to 140 form part of these financial statements.

# Company statement of changes in equity

for the year ended 31 December 2018

| | Note | Share capital £m | Share premium account £m | Share options reserve £m | Retained earnings/ (accumulated losses) £m | Total equity £m |
|---|---|---|---|---|---|---|
| Balance at 1 January 2017 | | 0.2 | 196.0 | 9.5 | (13.2) | 192.5 |
| Profit for the year | 9 | – | – | – | 0.2 | 0.2 |
| Transactions with owners | | | | | | |
| Issue of share capital | | – | 82.0 | – | – | 82.0 |
| Employee share schemes – value of employee services | | – | – | 4.4 | – | 4.4 |
| Balance at 31 December 2017 | | 0.2 | 278.0 | 13.9 | (13.0) | 279.1 |
| Loss for the year | 9 | – | – | – | (7.8) | (7.8) |
| Transactions with owners | | | | | | |
| Transfer of share option costs | | – | – | (13.0) | 13.0 | – |
| Capital reduction | | – | (278.1) | – | 278.1 | – |
| Issue of share capital | 8 | 0.1 | 301.0 | – | – | 301.1 |
| Equity issuance costs | | – | (9.1) | – | – | (9.1) |
| Employee share schemes – value of employee services | | – | – | 5.1 | – | 5.1 |
| Balance at 31 December 2018 | | 0.3 | 291.8 | 6.0 | 270.3 | 568.4 |

The notes on pages 134 to 140 form part of these financial statements.

# Company statement of cash flows

for the year ended 31 December 2018

| | | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|---|
| | Note | £m | £m | £m | £m |
| **Net cash outflow from operating activities** | 10 | | (0.1) | | (1.6) |
| **Investing activities** | | | | | |
| Loans advanced to subsidiary undertakings | 6 | (1.7) | | (0.1) | |
| Loan repayment from subsidiary undertaking | | 14.6 | | – | |
| Capital contribution to subsidiary undertakings | 4 | (58.3) | | (32.0) | |
| Interest received | | 0.5 | | 0.1 | |
| **Net cash outflow from investing activities** | | | (44.9) | | (32.0) |
| **Financing activities** | | | | | |
| Proceeds on issue of preferred shares | 8 | – | | 82.0 | |
| Preferred share issue costs | 8 | – | | (0.1) | |
| Preferred dividend payment | | (0.5) | | – | |
| Proceeds on the issue of ordinary shares on IPO | | 300.0 | | – | |
| Payment of IPO costs | | (15.0) | | – | |
| Proceeds on the issue of shares from the exercise of share options | | 1.1 | | – | |
| **Net cash inflow from financing activities** | | | 285.6 | | 81.9 |
| **Net increase in cash and cash equivalents** | | | 240.6 | | 48.3 |
| Cash and cash equivalents at the beginning of the year | | | 63.1 | | 14.8 |
| **Cash and cash equivalents at the end of the year** | | | 303.7 | | 63.1 |

The notes on pages 134 to 140 form part of these financial statements.

# Notes forming part of the Company financial statements

for the year ended 31 December 2018

## 1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment (see note 4 for further details).

## 2. Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and ensure any limits are adhered to. The Company's activities are reviewed regularly and potential risks are considered.

### Risk factors

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk (including currency risk, interest rate risk and other price risk); and
- foreign exchange risk.

### Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- loans due from related undertakings;
- trade and other receivables;
- cash and cash equivalents; and
- trade and other payables.

### Categorisation of financial assets and financial liabilities

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2018:

| | Carried at amortised cost – assets/(liabilities) | | Carried at fair value | |
|---|---|---|---|---|
| | Carrying amount £m | Fair value £m | Based on market derived data £m | Based on individual valuation parameters £m |
| Assets | | | | |
| Loans due from related undertakings | 1.8 | 1.8 | – | – |
| Trade and other receivables | 0.3 | 0.3 | – | – |
| Cash and cash equivalents | 153.7 | 153.7 | 150.0 | – |
| | 155.8 | 155.8 | 150.0 | – |
| Liabilities | | | | |
| Trade and other payables | (2.0) | (2.0) | – | – |
| | (2.0) | (2.0) | – | – |

## 2. Financial risk management continued

### Categorisation of financial assets and financial liabilities continued

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2017:

| | Carried at amortised cost – assets/(liabilities) | | Carried at fair value | |
|---|---|---|---|---|
| | Carrying amount £m | Fair value £m | Based on market derived data £m | Based on individual valuation parameters £m |
| **Assets** | | | | |
| Loans due from related undertakings | 14.5 | 14.5 | – | – |
| Trade and other receivables | 0.2 | 0.2 | – | – |
| Cash and cash equivalents | 63.1 | 63.1 | – | – |
| Receivables from related undertakings | 0.3 | 0.3 | – | – |
| | 78.1 | 78.1 | – | – |
| **Liabilities** | | | | |
| Trade and other payables | (0.8) | (0.8) | – | – |
| | (0.8) | (0.8) | – | – |

### Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include loans due from subsidiary undertakings, cash and cash equivalents, trade and other receivables and trade and other payables. Due to their short-term nature, the carrying value of the above items approximates their fair value.

### Financial risk factors

#### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from related undertakings and cash and cash equivalents held at banks.

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

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| **Non-current** | | |
| Loans due from related undertakings | 1.7 | 14.4 |
| **Current** | | |
| Loans due from related undertakings | 0.1 | 0.1 |
| Trade and other receivables | | |
| – Prepayments | 0.2 | 0.2 |
| – Accrued income | 0.1 | – |
| – Amounts due from related undertakings | – | 0.3 |
| Cash and cash equivalents | 303.7 | 63.1 |

The fair value of cash and cash equivalents at 31 December 2018 and 31 December 2017 approximates the carrying value. Cash risk is mitigated as cash and cash equivalents are held with reputable institutions.

# Notes forming part of the Company financial statements continued

for the year ended 31 December 2018

## 2. Financial risk management continued

### Financial risk factors continued

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's position.

The Company's liquidity position is monitored and reviewed on an ongoing basis by the Directors.

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

The maturity analysis of financial instruments at 31 December 2018 and 31 December 2017 is as follows:

| At 31 December 2018 | Less than 3 months £m | Between 3 months and 1 year £m | Between 1 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | 0.2 | 0.1 | – | – |
| Cash and cash equivalents | 303.7 | – | – | – |
| Loans due from related undertakings | – | 0.1 | 1.7 | – |
| | 303.9 | 0.2 | 1.7 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | (0.5) | (1.5) | – | – |
| | (0.5) | (1.5) | – | – |

| At 31 December 2017 | Less than 3 months £m | Between 3 months and 1 year £m | Between 1 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Trade and other receivables | – | 0.2 | – | – |
| Cash and cash equivalents | 63.1 | – | – | – |
| Amounts due from related undertakings | – | 0.3 | – | – |
| Loans due from related undertakings | – | 0.1 | 14.4 | – |
| | 63.1 | 0.6 | 14.4 | – |
| **Financial liabilities** | | | | |
| Trade and other payables | – | (0.8) | – | – |
| | – | (0.8) | – | – |

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risk arises from open position in interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

(a) Price risk

The Company is not exposed to market risk with respect to financial instruments as it does not hold any marketable equity securities.

(b) Cash flow and fair value interest rate risk

Interest on cash and cash equivalent balances is subject to movements in Libor. The Directors monitor interest rate risk and note that interest rates remain at a historical low. With the increased cash and cash equivalents following the IPO, a 0.5% increase in Libor could increase the annual interest earned by c.£1.5 million.

(c) Sensitivity analysis

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the report date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Company does not have significant exposure to liquidity or cash flow risk and therefore no sensitivity analysis for those risks has been disclosed.

## 2. Financial risk management continued

### Financial risk factors continued

**Market risk** continued

(d) Foreign exchange risk

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign exchange risk is disclosed in note 2 to the consolidated financial statements.

### Capital management

The Company considers its capital to comprise of equity share capital, share premium, share options reserve and retained earnings.

The Directors' objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholders and benefits for other stakeholders.

The Company is not subject to any externally imposed capital requirements.

## 3. Company profit/(loss) for the year

As permitted by the exemption in Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The Company has comprehensive loss for the year of £7.8 million (2017: comprehensive income of £0.2 million).

## 4. Investments in subsidiary undertakings

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Balance at 1 January | 201.8 | 151.8 |
| Capital contribution regarding employee services in subsidiaries | 4.5 | 4.4 |
| Additions | 58.3 | 32.0 |
| Capitalisation of intercompany loans | – | 13.6 |
| | 264.6 | 201.8 |

Investments in subsidiary undertakings, which are listed in note 29 of the Group financial statements, are all stated at cost less any provision for impairment.

During the financial year the Company made capital contributions in the form of cash investments of £31.5 million (2017: £21.8 million), £12.2 million (2017: £10.2 million) and £14.6 million (2017: £nil) to Funding Circle USA Inc., Funding Circle Continental Europe GmbH and Funding Circle Ltd respectively. During the prior year, the Company capitalised the intercompany loan of £13.6 million due from FC Continental Europe group entities. These amounts have increased the value of "Investments in subsidiary undertakings", carried at cost less impairments as per IAS 27, in the Company-only accounts.

In addition to the above, the Company recognised a capital contribution of £4.5 million (2017: £4.4 million) representing the service cost for the employees of its subsidiaries, under the Company's share option schemes.

## 5. Trade and other receivables

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Amounts due from related undertakings | – | 0.3 |
| Prepayments | 0.2 | 0.2 |
| Accrued income | 0.1 | – |
| | 0.3 | 0.5 |

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

# Notes forming part of the Company financial statements continued

for the year ended 31 December 2018

## 6. Loans due from subsidiary undertakings

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Funding Circle Ltd | 1.5 | 14.3 |
| Stichting Derdengelden Funding Circle | 0.1 | 0.1 |
| Funding Circle Global Partners Limited | 0.2 | 0.1 |
| | 1.8 | 14.5 |
| Less: non-current portion | (1.7) | (14.4) |
| Current portion | 0.1 | 0.1 |

**Amount due from Group undertakings**

During 2018, the Company continued to operate a loan facility agreement with Funding Circle Ltd (subsidiary company). Under the terms of the agreement, the Company will provide an unsecured sterling term loan facility of a total principal amount not exceeding £20 million (2017: £20 million) to Funding Circle Ltd. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facility term of five years on 23 November 2020.

During the year the Company has provided £1.5 million (2017: £nil) of additional funding under the facility agreement. Total interest income of £0.3 million (2017: £0.5 million) has been recognised in the Company statement of comprehensive income. The carrying amount of this receivable approximates to its fair value.

In the current period, Funding Circle Ltd settled certain amounts due under the intercompany loan obligations cumulative of interest of £14.6 million (2017: £nil) with Funding Circle Holdings plc.

During the year, certain FC Continental Europe group entities settled their intercompany loan obligations including interest of £nil (2017: £13.6 million) with Funding Circle Holdings plc.

During 2018, the Company continued to operate an unsecured sterling term loan facility for £1 million with its subsidiary (Funding Circle Global Partners Limited ("FCGPL")). Under the term of the loan agreement, any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facility term of five years on 30 June 2022.

During the year the Company has provided £0.2 million (2017: £0.1 million) of funding under the facility agreement. The carrying amount of this receivable approximates to its fair value.

## 7. Trade and other payables

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| Accruals | 0.5 | 0.3 |
| Preferred dividends payable | — | 0.5 |
| Taxes and social security costs | 0.6 | — |
| Other creditors | 0.2 | — |
| Amounts due to related undertakings | 0.7 | — |
| | 2.0 | 0.8 |

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 8. Share capital and share premium

The movement on these items is disclosed in notes 18 and 19 to the consolidated financial statements.

## 9. Retained earnings/(accumulated losses)

| | £m |
|---|---|
| Balance at 1 January 2017 | (13.2) |
| Profit for the year | 0.2 |
| Balance at 31 December 2017 | (13.0) |
| Capital reduction | 278.1 |
| Transfer of share option costs | 13.0 |
| Loss for the year | (7.8) |
| **Balance at 31 December 2018** | **270.3** |

## 10. Notes to the Company statement of cash flows

### Cash outflow from operating activities

| | 31 December 2018 £m | 31 December 2017 £m |
|---|---|---|
| (Loss)/profit before taxation | (7.8) | 0.2 |
| Adjustments for | | |
| Foreign exchange gain | – | (0.3) |
| Interest receivable | (0.8) | (1.1) |
| Non-cash employee benefits expense – share-based payments | 1.1 | – |
| IPO costs presented in financing activities | 5.9 | – |
| Changes in working capital | | |
| Movement in trade and other receivables | 0.2 | (0.5) |
| Movement in trade and other payables | 1.3 | 0.1 |
| Net cash outflow from operations | (0.1) | (1.6) |

### Cash and cash equivalents

| | 1 January 2018 £m | Cash flow £m | 31 December 2018 £m |
|---|---|---|---|
| Cash and bank balances | 63.1 | 240.6 | 303.7 |

These comprise cash held by the Company, short-term bank deposits with an original maturity of three months or less and money market funds. The carrying amount of cash balances approximates their fair value. As at 31 December 2018, money market funds totalled £150.0 million (2017: £nil).

# Notes forming part of the Company financial statements continued

for the year ended 31 December 2018

## 11. Related parties

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Short-term payables/receivables: | | | | |
| Funding Circle Ltd | – | 0.3 | 0.8 | – |
| Intercompany loans: | | | | |
| Funding Circle Ltd | 1.5 | 14.3 | – | – |
| Stichting Derdengelden Funding Circle | 0.1 | 0.1 | – | – |
| Funding Circle Global Partners Limited | 0.2 | 0.1 | – | – |
| | 1.8 | 14.8 | 0.8 | – |

During the year, the Company received payment of expenses for amounts of £1.1 million (2017: paid expenses for amounts of £0.1 million) from Funding Circle Ltd.

As at the year end, the Company was owed a cumulative amount of £1.5 million (2017: £14.3 million) and £0.1 million (2017: £0.1 million) from loans with Funding Circle Ltd and Stichting Derdengelden Funding Circle.

## 12. Parent Company guarantee – exemption from audit for subsidiary companies

The following UK entities, all of which are 100% owned by the Group, are not subject to an audit by virtue of s479A of the Companies Act 2006 relating to subsidiary companies:

| Company | Registration number |
|---|---|
| Funding Circle Asset Finance Limited | 7832868 |
| Funding Circle Global Partners Limited | 10554628 |

The following UK entity, which is 100% owned by the Group, is exempt from the requirement to prepare accounts by virtue of s394A of the Companies Act 2006 relating to the individual accounts of dormant subsidiaries:

| Company | Registration number |
|---|---|
| Made to Do More Limited | 10575978 |

## 13. Remuneration of key management personnel

The remuneration of key personnel is disclosed in note 6 to the consolidated financial statements.

## 14. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

# Shareholder and Company information

## Shareholder information

Receiving shareholder information by email:

You can opt to receive shareholder information from us by email rather than by post. We will then email you whenever we add shareholder communications to the Company website. To set this up, please visit www.shareview.co.uk and register for electronic communications (e-comms).

If you subsequently wish to change this instruction or revert to receiving documents or information by post, you can do so by contacting the Company's registrars at the address shown in the Company Information opposite. You can also change your communication method back to post by logging in to your Shareview account and going to "update my communication preferences" within the "Quick links" section.

The Registrar can also be contacted by telephone on +44 (0)371 384 2030 (non-UK callers +44 (0)121 415 7047) or +44 (0)371 384 2255 (text phone). Calls to this number cost no more than a national rate call from any type of phone or provider. These prices are for indication purposes only; if in doubt, please check the cost of calling this number with your phone line provider. Lines are open 8.30am–5.30pm, Mon-Fri excluding public holidays in England and Wales.

### Shareholder enquiries

If you have any queries relating to your shareholding, dividend payments or lost share certificates, or if any of your details change, please contact the Company's registrars by visiting www.shareview.co.uk or by using the contact details above.

### Annual shareholder calendar

| | |
|---|---|
| Final results announced | 7 March 2019 |
| Annual Report published | 9 April 2019 |
| Annual General Meeting | 5 June 2019 |

### Interim report

As part of our e-comms programme, we have decided not to produce a printed copy of our Interim Report. We will instead publish the report on our website, where it will be available around mid-August each year.

## Company information

### Directors

**Executive Directors**

S Desai CBE (Co-founder, Chief Executive Officer)
S R Glithero (Chief Financial Officer)

**Non-Executive Directors**

A D Learoyd (Chairman)
J E Daniels
G Gopalan
C J Keers
H W Nelis
N A Rimer
R K Steel (Senior Independent Director)
E J Wray

### Company Secretary

L K Vernall

### Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

### Bankers

Barclays Bank UK plc
1 Churchill Place
London E14 5HP

Santander UK plc
2 Triton Square
Regent's Place
London NW1 3AN

Lloyds Banking Group plc
25 Gresham Street
London EC2V 7AE

### Solicitors

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

### Registrars

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

### Brokers

Goldman Sachs International
Peterborough Court
133 Fleet Street
London EC4A 2BB

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

### Registered office

71 Queen Victoria Street
London EC4V 4AY

### Registered number

07123934

## Cautionary statement

Certain statements included in our 2018 Annual Report, or incorporated by reference to it, may constitute "forward-looking statements" in respect of the Group's operations, performance, prospects and/or financial condition.

Forward-looking statements involve known and unknown risks and uncertainties because they are beyond the Group's control and are based on current beliefs and expectations about future events about the Group and the industry in which the Group operates.

No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group.

If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. The forward-looking statements contained in this report reflect knowledge and information available at the date of this Annual Report and the Group undertakes no obligation to update these forward-looking statements except as required by law.

This report does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase, any shares or other securities in the Company, and nothing in this report should be construed as a profit forecast.

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**Funding Circle Holdings plc**
71 Queen Victoria Street
London
EC4V 4AY

corporate.fundingcircle.com