BELIEVE IN THOSE MADE TO DO MORE

Funding Circle Holdings plc
Annual Report and Accounts 2019

IGNITING OPPORTUNITIES

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

fundingcircle.com

Operational

Leading SME lending platform

- Loans under management £3.73 billion (up 19%)
- Originations of £2.35 billion (up 3%)
- c.80,000 small businesses accessed finance since 2010, with Net Promoter Score of 80–90 for borrowers in the UK and US

Deep and diverse investor base

- Investor returns expected to deliver 5.0–7.8% in the UK and US for loans originated in 2019, 10-30% higher than returns in 2018
- Successfully launched two new products, Funding Circle sponsored ABS bonds and Private Funds

Completed initial build of instant decision lending platform

- New platform will drive superior customer experience and competitive advantage
- Initial pilots rolled out in Q4 2019 in the UK and first loans took on average 6 minutes from application to approval
- On track to roll out to c.50% of borrowers by the end of 2020

Building a dynamic team

- Circlers are owners of the business through equity programme
- 83% CEO approval on Glassdoor
- 44% gender diversity at Global Leadership Team level

Financial

Statutory financial

KPIs

Revenue[1]

£167.4m

2018: £141.9m

Loss before tax[2]

£84.2m

2018: £50.9m

APM[1]

KPIs

Segment adjusted EBITDA[1,2]

£11.2m

2018: £12.1m

Adjusted EBITDA[1,2]

£(27.5)m

2018: £(23.4)m

Operational

KPIs

Loans under management

£3.7bn

2018: £3.1bn

Originations

£2.4bn

2018: £2.3bn

1. Revenue refers to Net Income. For reconciliation of alternative performance measures ("APM") to statutory measures refer to page 34.
2. Restated for the impact of IFRS 16 (refer to page 102).

Contents

The Strategic Report was approved by the Board on 12 March 2020.

Samir Desai
Chief Executive Officer

About Funding Circle

Funding Circle provides small businesses with fast, competitively priced access to finance, whilst investors and lenders earn attractive returns. Today we are a leading global platform for small business loans operating in the UK, the US, Germany and the Netherlands.

115,000
jobs contributed by SME borrowers[1]

<2%
SME lending as a share of bank balance sheets[1]

6.5 billion
GDP contribution[1]

£470 billion
current addressable market[2]

1. Source: "The Big Business of Small Business", Oxford Economics, April 2019.
2. Source: OC&C analysis, 2018.

We have developed a highly efficient and effective platform that enables small businesses to access finance directly from investors, creating opportunities for both. We use cutting-edge technology, proprietary credit models and sophisticated data analytics to create an attractive and convenient proposition for both borrowers and investors.

We invest heavily in our technology, data and analytics to drive a better customer experience. Our value proposition to both borrowers and investors, supported by our credit and risk management expertise and single focus on helping small businesses, has led to high customer satisfaction rates.

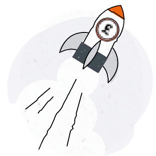
We believe that as we get bigger and help more small businesses access the finance they need to grow, we will create a stronger platform with increased competitive advantage. This creates a virtuous circle that will enable us to continue to help thousands of small businesses around the world and drive market share.

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

Read more on page 10



c.80,000
small businesses helped

Superior value proposition

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

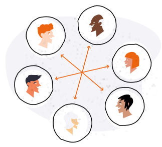
Read more on page 16

80–90
Net Promoter Score for borrowers in the UK and US

Virtuous network effects

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

Read more on page 12

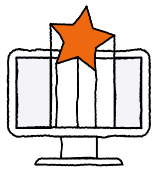


2
loans taken out every 5 years by UK borrowers

Sophisticated technology and data

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

Read more on page 20



350
members of our tech and data team globally

Strong growth opportunities

Compelling growth opportunities with an improving financial profile

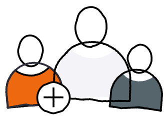
Read more on page 10

18%
revenue growth in 2019

Founder-led entrepreneurial culture

Founder-led and experienced management team with entrepreneurial culture

Read more on page 22



73%
employee satisfaction globally

Laying the foundations for long-term success

"

I am proud of how the Board and management team worked together constructively in 2019 to support the business and position it for future success.

2019 in review

2019 was a year of challenge, economically and politically, for the country – and we were not immune from those prevailing headwinds – but I am pleased to say we start 2020 as a sharper and more resilient business.

In response to a deteriorating economic outlook, we took proactive action to tighten lending in higher risk band loans. Clearly this impacted overall origination volumes in the second half of the year, and in turn our financial performance for 2019. These were not decisions taken lightly by the Board, but in times of uncertainty and challenge, it is important we take decisions that are in the interests of the long-term success of the business – and for the benefit of customers on our platform.

On a personal level, I am proud of how the Board and management team worked together constructively in 2019 to take tough decisions which hurt our short-term growth but which support the business and position it for future success. The Board has overseen a subtle shift in emphasis from that of being a private company with a dominant focus on growth to being a public company with a balanced focus on profit and growth.

The year ahead

A year ago, just days ahead of Britain's expected exit from the EU, I wrote that if economic conditions were to turn adverse, we would do all we can to ensure that Funding Circle continued to find funds for SMEs. A year on and I write again at a time of potentially volatile social and economic consequences, this time created by the coronavirus. The message remains the same – much has changed since the founders launched Funding Circle nearly ten years ago, but what has not changed is the importance of channelling capital through to small businesses which are the lifeblood of economies. Whatever the economic headwinds that we face, we will continue to seek to be the go-to destination for SMEs looking for capital.

A significant portion of 2019 was spent working on innovative new product improvements and I want to congratulate the team on completing the initial build of the new instant decision lending platform. We know small businesses prefer the online experience when it comes to accessing finance. It is a clear demonstration that while we mature as a listed company, we have lost none of the creative entrepreneurialism which underpins our market leadership. We hope to see even more evidence of this in the months ahead.

Our team and our governance

As your Company evolves, so too does its Board. In January 2020 Sean Glithero, Chief Financial Officer, informed the Board that he would step down during the course of the year. We would like to thank him for his significant contribution since joining us in 2017. He has been an integral member of the team and we wish him all the best for the future. We look forward to welcoming Oliver White, who will bring vast experience growing an international loan provider.

We are moving to a new delivery model in Germany and the Netherlands, which will involve a smaller, dedicated team in London. I would personally like to thank all those who played a part helping to establish a market-leading position in both markets.

The Board is acutely aware that success will only be achieved by continuing to promote the kind of values and culture that has made Funding Circle a magnet for talented people over the last nine years, and a company everyone is proud to work for.

The team places great importance on listening to people across the Company and taking their opinions into account when formulating strategy. We were particularly pleased to see the voice of our Circlers brought into the boardroom through a structured programme of employee engagement with Non-Executive Board members in 2019.

I am enormously proud to be Chairman of a business which has such strong values. As we enter the tenth year of Funding Circle's short history, it will be more important than ever to balance our obligations as a publicly listed company with the entrepreneurial spirit that courses through this Company and so many of the small businesses we serve. This is no easy feat in a complex and fast-moving environment and the Board has risen to the task so far.

At the same time, 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 are also committed to maintaining open lines of communication with our shareholders and to proactively addressing any issues in a timely manner.

I wish to thank our investors who have continued to support the Company during its first year as a PLC. They understand the potential of Funding Circle and their long-term support is hugely appreciated. I would also like to warmly welcome all our new shareholders as we enter the next stage of our Company's journey.

Finally, I'd like to thank everyone at Funding Circle for their hard work and dedication throughout the past year. A huge amount has been achieved in the year with strategic developments while our core business has emerged leaner and fitter than before. Whatever short-term turbulence is caused to the global economy by the threat of the coronavirus, the Board has great confidence in the future of the Group.

Andrew Learoyd
Chairman
12 March 2020

A year of evolution and progress

> Over the past decade, we have seen first hand the huge societal and economic impact SMEs can have.

I'm incredibly proud of how far we have come as a company since we launched Funding Circle. Through our platform, investors have helped tens of thousands of businesses globally to access the finance they need, which has in turn created hundreds of thousands of jobs.

Over the past decade, we have seen first hand the huge societal and economic impact SMEs can have. However, too often SMEs are ignored or forgotten about when it comes to finance. At Funding Circle we are determined to champion these business owners who are made to do more. It is our mission to be the place where these small business owners can access the finance they need to win.

Financial overview

In 2019, we grew revenue to £167.4 million (2018: £141.9 million), up 18%, with loans under management up 19% to £3.73 billion (2018: £3.15 billion). It was pleasing to see our UK business deliver an operating profit of £3.0 million in H2 2019 (H2 2018: negative £5.4 million). Profitable growth is our focus as a business and the UK represents c.65% of the Group. With our US business following a similar trajectory to the UK, we are well positioned for 2020.

Operational overview

As we highlighted in the 2019 half-year results, last year we saw higher risk band loans showing lower returns due to the macro environment. In response to this trend, we proactively tightened lending in these higher risk bands. This affected the overall conversion of borrower applications and our revenue growth expectations for the year, but protected net returns to investors. The early signs have been positive. Investor returns are expected to deliver 5.0–7.8% in the UK and US for loans originated in 2019, 20–30% higher than 2018. This prudent step was the right course of action for the long-term growth and development of our business.

Enhancing our leadership position in the UK

Despite a challenging political and economic environment in the UK, we continued to build on our leadership position in the UK in 2019. Net lending to SMEs through our platform was regularly higher than many of the major banks during the course of 2019, further highlighting the impact investors have when they use Funding Circle. We also launched a number of new investor products, including our asset-backed bond programme and UK Private Fund. By deepening and diversifying our investor base, we are growing the universe of investors on the platform and ultimately helping more SMEs.

> One of my biggest highlights in 2019 was the completion of the initial build of our new instant decision lending platform. This new platform is revolutionary in small business lending.

One of the biggest SME loan portfolios in the United States

In the US, we continued to invest with a long-term perspective, taking market share and establishing ourselves as one of the biggest SME loan portfolios in the country. Funding Circle would be one of the 50 largest SME loan portfolios, if we were a bank. Throughout the year, we expanded our partnerships programme, deepening relationships with other lenders like Lending Club, as well as Intuit and Stripe. We also launched our inaugural asset-backed bond programme in 2019, securitising $210 million (£172 million) of SME loans in August 2019 with a further securitisation of $252 million (£192 million) occurring in January 2020.

Refining the business model in our Developing Markets

We have recently taken the decision to refine our business model in our German and Dutch markets. We will focus on originating loans for local lenders that we have partnered with in each market, as opposed to for institutional and retail investors. This will enable us to move to a more efficient model that better serves small businesses in these markets, and will help to accelerate our overall business on the path to profitability. We anticipate that, going forward, adjusted EBITDA losses will fall in Germany and the Netherlands from £16.4 million to low single digit millions.

As part of this move we will operate with a smaller team going forward based in London. Saying goodbye to members of the team is never easy and I want to express my sincere thanks to the teams in both countries for their hard work and dedication. We continue to be excited by the German and Dutch markets, but it is important that we have the right long-term model to best service businesses in each of these geographies.

Building the next generation technology platform for small businesses

One of my biggest highlights in 2019 was the completion of the initial build of our new instant decision lending platform. This new platform is revolutionary in small business lending. We began rolling out initial pilots for instant decision loans in the last quarter of 2019, with the first loans taking an average of 6 minutes from application to approval. We remain on track to roll out this market-leading functionality to c.50% of borrowers in the UK and US by the end of 2020.

Our people

The exceptional group of people we have at Funding Circle are central to the successes we experience as a business. I would like to thank every member of our talented team, for all their hard work and commitment over the past 12 months. I am proud of the open and transparent organisation we have built together. The culture we have at Funding Circle is special and continuing to foster this will ensure we achieve long-term success.

Looking ahead

Over the past 12 months we have shown we will always be prepared to do the right thing for the long-term future of the business. Funding Circle was founded in a harsh economic climate, against the backdrop of the global financial crisis. Our growth and resilience over the last ten years prove we are prepared for similarly tough conditions whenever they arise.

The opportunity in front of us remains huge. The current addressable market we operate in today is £470 billion, yet we remain only c.1% of the market. SMEs are woven into the fabric of our lives. We rely on them for so much, yet they continue to be underserved by the traditional players when it comes to accessing finance. As a business we are committed to solving this problem and helping small businesses win. This was our simple aim when we first launched the business nearly 10 years ago and it remains so today.

We look ahead to the rest of 2020 with optimism. 2019 was a year where we completed a lot of work on new ways to improve the experience for small businesses, and this year people will start to see the results of this hard work. I look forward to updating you on our progress in 2020.

Samir Desai
Chief Executive Officer
12 March 2020

IGNITING OPPORTUNITIES

Just Jan's

GOING FURTHER

Just Jan's is a full line of gourmet fruit spreads and foods, made from recipes created by Jan, and without artificial ingredients or preservatives.

Just Jan's produces gourmet fruit spreads and marmalades which are all natural and preservative-free, made by hand in Jan's Kitchen in California, US. Not just for toast, the spreads and marmalades are for use in everything from cocktail recipes to baked goods. To meet growing demand, Jan returned to Funding Circle this year to access finance to help cover inventory and production costs.

Leading lending platform in underserved market

SME market overview

SMEs play a vital role in society, driving economic growth, employment and innovation. Each year these businesses are responsible for 50–60% of economic value creation in the OECD region. Despite their importance, SMEs are often overlooked, underserved and undersupported.

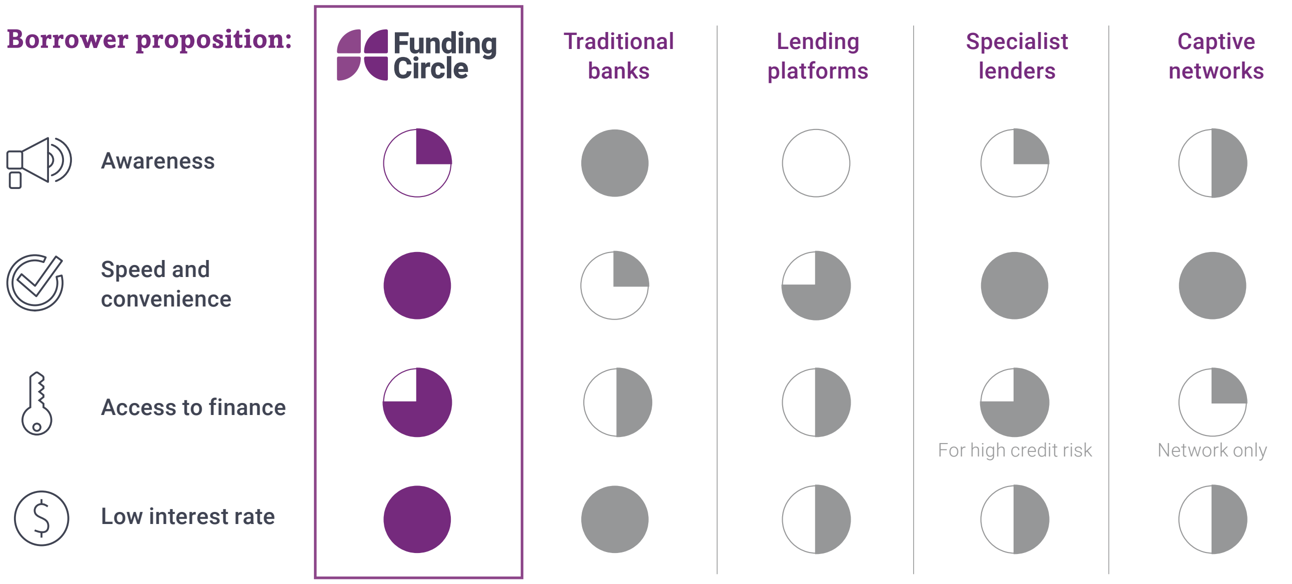
The competitive landscape

Globally, 53% of SMEs say it is difficult to gain access to capital. In the years since the global financial crisis, bank lending to SMEs has become more restricted. In the UK alone, total outstanding lending to small businesses by banks has fallen by 11%, from £189 billion in 2011 to £168 billion in 2019. Structural issues mean banks now tend to focus on lending to consumers or larger corporates.

Across the same period, technology has made direct lending possible. Much akin to platforms in the transport sector, lending platforms are able to match supply directly with demand, giving a wide range of investors the opportunity to lend directly to SMEs. This model is proving to be a more efficient mechanism to channel funds to the real economy, without the systemic risk inherent in the banking system.

Governments recognise the social good lending platforms are providing and have introduced initiatives to support the growth of this innovative new model, which in turn improves choice and competition in the market and stimulates SME lending. In the UK, the Government-owned British Business Bank is lending through platforms like ours.

Four major groups of competitors in SME space



As a result there is now more choice and competition in the SME finance market than ever before, which means the competitive landscape in which we operate is now made up of:

i) Traditional banks

Despite the landscape changing significantly, banks continue to be the dominant players in terms of overall SME lending volume in each of our markets. High concentration exists in the UK and the Netherlands, and high fragmentation in the US and Germany. The outcome for SMEs, however, is largely the same; creditworthy businesses are turned away or are simply put off by the often long processes involved.

ii) Lending platforms

Lending platforms have emerged across the world particularly in the last decade and are now competing with banks. Operating completely online, with lower overheads than traditional lenders, platforms allow a wide range of investors to lend directly to SMEs. This has opened up pools of capital not previously available to small businesses including retail investment and financial institutions such as pension and insurance funds. Governments are also able to use lending platforms as a macroeconomic tool to stimulate the real economy.

SMEs are increasingly choosing lending platforms over a bank, due to the speed, flexibility and service offered. Today, a wide variety of 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.

iii) Specialist lenders

Specialist lenders serve a smaller portion of the overall market. They differentiate themselves by focusing on specific segments by product, such as asset finance or invoice finance.

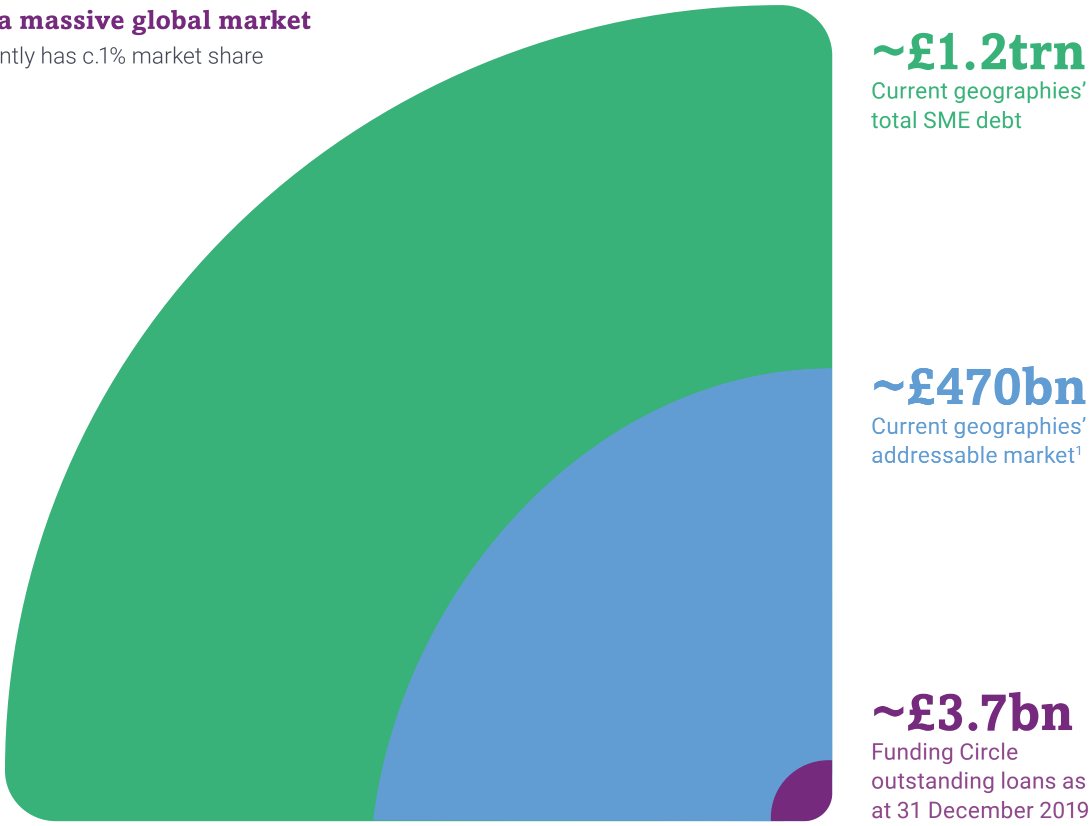
iv) Captive networks

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 by only focusing mainly on lending products to SMEs which use their services, their borrower base remains relatively small.

SME lending is a massive global market

Funding Circle currently has c.1% market share



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%.

How we create value

Building the place where small businesses can get the funding they need to win.

Borrowers

Core 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.

Our typical borrowers have:

- 10 years' trading history
- 7 employees
- ~£1m revenue
- ~£80k loan size
- 48 months average term
- 10 minute application; 24-hour turnaround

How we make money

Transaction fee

Marketplace borrowers

We are also trialling opening up our marketplace, offering a range of products beyond our core term loan product. By connecting borrowers with other lenders in the market, we are able to offer larger loans, asset finance and invoice finance.

Platform

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. This results in high repeat rates, helping us to grow alongside our customers.

Through our platform, we are 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.

Investors

Core investors

Our original innovation ten years ago means a wide range of investors are now investing in SME loans. The platform model 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.

- 50% of funding from institutional investors
- 23% retail
- 16% bonds (see below)
- 7% funds
- 4% government

How we make money

Servicing fee

Funding Circle ABS

Funding Circle sponsored ABS bonds containing a pool of whole loans.

How we make money

Net investment income

Marketplace lenders

20+ lenders on our marketplace panel.

How we make money

Transaction fee

Value created

For borrowers

Access to fast, flexible, affordable finance, coupled with excellent customer service, allowing SMEs to get on with what they do best; growing their business whilst contributing to the local community and economy.

£8.5 billion

lent to businesses

For investors

Access to a stable and attractive asset class, previously only ever held on bank balance sheets.

5.0–7.8%

expected investor returns for loans originated in 2019 in the UK and US

For employees

The opportunity to build the incredible, to make a positive lasting impact on a huge societal issue, fast-tracking career experience in an accelerator environment and working in a way unlike any other public company.

83%

approval of CEO on Glassdoor

Delivering our strategy

At Funding Circle our mission is to build the place where small businesses can get the funding they need to win. Underpinning this mission is our three-year strategic plan, FC2020, which we launched at the start of 2018 and acts as the foundation to achieving our long-term goals. The FC2020 plan is based on four key pillars that focus on how we service and delight our customers:

1 Drive a better borrower experience

We believe SMEs deserve a faster, easier and all-round better experience when it comes to accessing finance; by improving the borrower experience and increasing brand awareness, we attract more SMEs to our platform and expand our presence in key markets.

Our strategy in action

We consistently achieve strong customer satisfaction scores and repeat business. By focusing on price, access and engagement, and by investing in technology and data, we're improving convenience and efficiency to enhance the overall user experience.

Progress in 2019

- Completed the initial build of the new instant decision lending platform and rolled out initial pilots for instant decision loans.
- Maintained strong customer satisfaction scores of 80-90 (Net Promoter Score).
- Opened up our marketplace to allow other lenders to serve borrowers who are better suited to a non-core loan product.
- Started work on a new creative campaign – "Your Business, Your Baby" – which launched in January 2020.

Link to KPIs:
- Loans under management
- Originations
- Marketing as a % of revenue
- Revenue

Link to risks:
- Economic risk
- Portfolio risk management
- Reputational risk
- Client detriment
- Financial crime

2 Invest in data, tech and analytics

Technology, data and analytics are central to our strategy and underpin our success as a business. Through continued investment and innovation in this area, we leverage our data to enhance our risk and credit models, while developing cutting-edge, customer-centric technology to improve the user 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 datasets and invest in analytical tools to create more personalised processes, while increasing automation by rolling out our new global technology platform.

Progress in 2019

- Integrated a third party engine to support decisions on risk and price.
- Created a data lake repository for all Funding Circle data, which underpinned the build of our new instant decision lending platform.

Link to KPIs:
- Loans under management
- Originations
- Revenue

Link to risks:
- Portfolio risk management
- Information security
- Technology risk

By delivering against these strategic priorities, we're evolving our business and preparing for the future. Since 2018 we have made good progress, and we will continue to invest in these areas this year as we build on our leadership position in each of the geographies where we operate.

We also look forward to rolling out our next three-year plan at the end of 2020.

3 Diversify funding sources

Diversifying our funding base helps to ensure the sustainability of our business. We work to attract long-term commitments from investors, and will take prudent steps to protect their investments and enhance the predictability and stability of returns.

Our strategy in action

Since day one our strategy has been to create an investor base with breadth and depth. Today we have retail investors, government entities and institutional investors all lending through the platform in various different ways. In 2019 we built on this by offering new fund and bond products, providing investors with further choice around how to access this important asset class.

Progress in 2019

- Launched new Funding Circle sponsored products: ABS Bonds in the US and UK, and Private Funds in the UK and Continental Europe.
- Welcomed new investors to the platform, including the European Investment Bank, Merseyside Pension Fund and AVIDA.
- Positive action taken to improve net returns for investors. Investor returns are expected to deliver 5.0–7.8% in the UK and US for loans originated in 2019.

Link to KPIs:

- Loans under management
- Originations
- Revenue
- Loss before tax
- EPS
- Segment adjusted EBITDA
- Adjusted EBITDA
- Free cash flow

Link to risks:

- Economic risk
- Funding risk
- Liquidity risk
- Regulatory risk
- Client money risk
- Reputational risk

4 Build a highly scalable global business

Our aim is to continue growing as a leader in the platform lending industry. We believe there is an opportunity to build an even larger base of SMEs and investors in our existing countries.

Our strategy in action

We have a strong track record of identifying and grasping expansion. We continue to explore new ways to build on our leadership position and help more underserved SMEs.

Progress in 2019

- Continued our efforts to unify all geographies onto a single money and loan platform.
- Continued to build an operations hub in Denver to serve large US market.
- Centralised functions such as risk and finance to create efficiencies and better ways of working.

Link to KPIs:

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

Link to risks:

- Economic risk
- Reputational risk
- Technology risk
- Regulatory risk

Flexible fast finance

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

A revolution in SME lending

By combining cutting-edge technology with exceptional customer service, we provide a borrower experience that's second to none. Characterised by convenience and speed, our unique offer is underpinned by expert risk management and analytics, enabling us to make our loan application and decision-making process as quick, easy and secure as possible.

Our aim is to simplify the borrower experience, removing the hassle, complication and uncertainty that has traditionally surrounded SME funding. Through a simple online application, we deliver a fast, flexible and competitively priced loan, while our dedicated account managers build smooth-running and long-lasting customer relationships.

Focused exclusively on small business borrowers

At Funding Circle, we focus exclusively on SME lending. Borrowers have, on average, seven employees and a trading history of ten years, and generate approximately c.£1 million of revenue per annum. They are often small family businesses which, historically, have been overlooked and underserved by bank lending.

The borrower base is also highly diversified across geographies and industries, which helps to ensure stable investor returns and protect against the effects of economic downturns and market volatility.

The average size of loans originated through the Funding Circle platform is approximately £80,000. The loans are fully amortising, with an average lending term of 48 months but ranging from 6 to 60 months. Interest rates on Funding Circle loans have averaged approximately 11%.

Committed to helping SMEs fulfil their ambitions, we focus on enhancing the user experience and making the application and funding process as efficient as possible.

By opening up our marketplace, we enable access to a diverse range of partner lenders to help expand SME funding options.

The appeal of our value proposition for borrowers is reflected in our high customer satisfaction scores. In 2019, we achieved a Net Promoter Score between 80–90 in the UK and US.

Key developments in 2019

During 2019, we introduced two major platform innovations to further enhance the borrower experience:

Serving more businesses

In 2019 we began the development of our new instant decision lending platform that will streamline the borrower user experience through automation, enabling greater speed and ease of access for borrowers. At the end of the year, we began to pilot this new technology for a small number of borrowers in the UK. The results have been encouraging.

Profile of average borrower

48
term of loan (months)

~£80k
loan size

10 years
trading history

~£1m
revenue

7
number of employees

c.80,000
borrowers globally

80–90 NPS
Net Promoter Score in UK and US in 2019

82%
of borrowers would choose Funding Circle again in future rather than their bank

70%
of borrowers would choose Funding Circle first because the process is too long or inconvenient at a bank

The first borrower to use our new technology platform received an instant loan decision with zero physical documentation required in just six minutes.

Ten years of development and expertise in product, technology and risk management has enabled us to get to this stage. In 2020 we will continue to improve this experience and roll it out to a larger number of borrowers, both in the UK and US.

Opening up our marketplace

Also in 2019, we began a pilot which opened up our marketplace to a panel of carefully selected, specialist SME lenders – both traditional and other FinTechs.

This allows us to serve more borrowers, a key metric of ours, by referring customers who have come to Funding Circle in search of finance but are not suited to our core loan product.

By guiding SMEs to alternatives, we're able to help more customers and supplement our existing product offer, catering for a broader range of SME finance needs. We are also capitalising on the strong brand we have built in the SME finance market, furthering our reputation as a major player and enabler in the SME online lending market.

In 2020, we will continue this pilot, onboarding more partner lenders as part of our commitment to saying "yes" to more and more SME customers globally.

IGNITING OPPORTUNITIES

Supakart

GET UP AND GROW

Supakart are an indoor karting centre based in Newport, Wales. Managed by a family of petrolheads who have been racing for years, they know how to make seriously exciting karting tracks.

"

Supakart experienced somewhat of a lull after 20 years of trading. Something needed to change. I applied to Funding Circle for a loan to help with a whole raft of changes, including a new section of track, karts and balcony spectator area. These changes have brought the most significant increase in turnover since we started trading in 1995. Funding Circle were a breath of fresh air. The process was refreshingly simple and swift, the complete opposite of my dealings with the high street banks. I would happily recommend Funding Circle.

Darren Evans
Owner, Supakart

Stability, protection and choice

We are committed to providing investors with attractive and stable returns, which is why we will take prudent steps to protect returns when needed.

Our value proposition for investors aligns with one of the key pillars of our FC2020 strategy which we set out at IPO: diversifying funding sources.

Our model has provided investors with access to an asset class previously only held on bank balance sheets, thereby opening up a whole new asset class to the investor community. This has attracted a diverse range of investors, including retail investors, asset management companies, insurance companies, government-backed entities and funds – both public and private.

To give investors greater flexibility in how they access the SME asset class, we are committed to creating new products and diversifying investment options.

Key developments in 2019

During the year, we introduced a number of new programmes designed to further strengthen our value proposition for investors:

Protecting investor returns

As a result of the challenging macro environment, we proactively tightened our credit criteria for higher risk loans to protect returns for investors. This was the right decision for investors and for the long-term success of the platform and we're pleased that the early signs show the decisions we took are working. For loans originated in 2019, investor returns are expected to deliver 5.0–7.8% in our core markets of the UK and US, 20–30% higher than 2018. Annual returns in Germany and the Netherlands are expected to deliver 4.7–8.0% for loans originated in 2019.

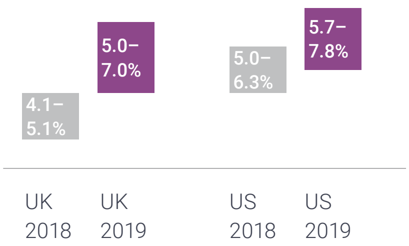
Launching new investor products

We were pleased to launch new investor products in 2019: ABS bonds and Private Funds. These products are designed to widen the universe of lenders that can access the platform by providing investors with more choice around how they access the asset class.

ABS bonds

Our new Funding Circle sponsored ABS bonds give investors more choice as to how they access the SME loan asset class. By strategically using our balance sheet to launch these new products, we're able to bring a wider range of investors on board. This diversification encompasses banks, asset managers and government institutions, which will help us maintain funding over a full credit cycle.

Projected annualised return ranges[1]



1. The projected annualised return is calculated by combining the actual annualised return received to date, and our latest return estimates for the remaining term of loans that have not yet been fully repaid.

In August, in the US we announced a $210 million asset-backed securitisation of US small business loans, adding 18 new institutional investors to the platform. This initiative was followed in November by our announcement of a £250 million securitisation of UK small business loans together with Waterfall Asset Management.

Private Funds

We also launched two Private Funds which provide access to investors who cannot hold individual loans, but who can invest in private funds.

In January, we launched the Funding Circle European SME Direct Lending Fund I. Alongside Funding Circle, third party investors have committed in excess of €40 million in lending to German and Dutch SMEs.

This was followed by the launch of the Funding Circle UK SME Direct Lending Fund I in June, which intends to raise more than £200 million from UK institutional investors. Merseyside Pension Fund has invested £30 million alongside Funding Circle, initially supporting approximately 600 small businesses across the UK.

Making retail liquidity more equitable

We are always looking at ways to improve the lending experience. Following a review in 2019, we introduced changes to how the secondary market for retail investors works.

5.0-7.8%

projected annual returns for loans originated in 2019 in the UK and US

How we 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're able to react and implement changes quickly.

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.

Random allocation

All investors, both retail and institutional, are randomly allocated loans. Retail investors purchase fractional loan parts and institutional investors purchase whole loans.

Regular stress tests

We regularly stress test our loans to assess the potential impact of adverse economic conditions on our loan book. Covering various recessionary scenarios, our tests suggest that, even in a major economic downturn, our investors would still make positive returns.

Passive investment

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

Being able to sell loans on the secondary market has always been reliant on there being buyers, but the changes we made provide all retail investors wishing to sell with equitable access to the available liquidity at the time.

Specifically, we launched a new selling tool which cycles through all investors wishing to sell loan parts as many times as possible within a 120-day period. As a result, investors receive money back more regularly from the loan parts that have been sold.

Implementing new FCA regulations in the UK

We have always welcomed regulation of the platform lending industry and we are supportive of the Financial Conduct Authority's ("FCA") desire to raise standards across the sector.

Following a 'post-implementation' review of industry regulations initiated in 2016, the FCA announced in June new regulations for lending platforms that accept retail investments under Article 36H, which came into force in December 2019. The key changes include:

- New retail investors on lending platforms now need to take an 'appropriateness assessment' to help ensure customers understand how the platform they are joining works, the risks involved, and the nature of the investment offered.
- Investors will also have to classify themselves as 'everyday', 'sophisticated' or 'high net worth' investors. Investors who classify themselves as 'everyday' can only lend up to 10% of their investable assets in their first year using a lending platform.

Enhancing collections and recoveries

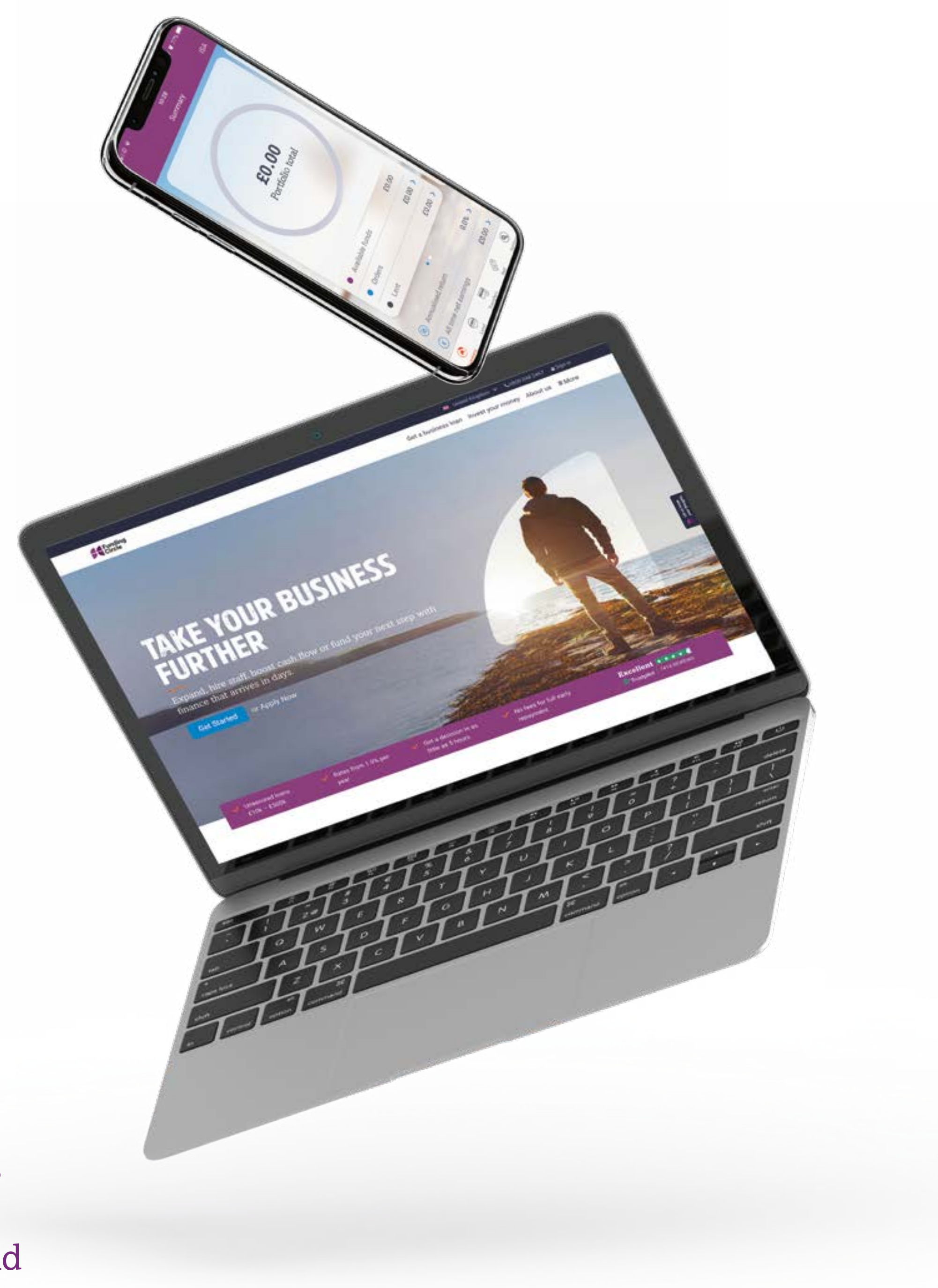
Across all our geographies, our specialist Collections, Recoveries and Litigation team works closely with borrowers who run into difficulty, providing an industry-leading collections service. In 2019, we challenged ourselves to work more effectively on behalf of investors including:

- building a strong compliance culture and continuing to operate in a fair and transparent way with customers;
- leveraging learnings about human behaviour; and
- working with an external debt collection agency to improve our alignment with best practice.

As a result of these efforts, in 2019 we improved our recovery rate and reached our overall collections targets in the UK.

Transformational innovations

Technology, data and analytics flow through everything we do and underpin our success as a business.



Over the last decade, we have built up a huge SME knowledge base and aggregated vast amounts of information. This has enabled us to develop rich proprietary datasets on borrowers and borrower performance, from which we build highly accurate risk and pricing models. At the same time, through the development of bespoke, customer-centric technology, we have created an agile, responsive and unified money and loan management platform. Combined, these assets help to ensure that speed, accuracy and ease of access lie at the heart of our user experience.

The scale and sophistication of our technology attracts exceptional talent to our business, creating a virtuous circle that drives continuous improvement, refinement and competitive advantage. Our software and data engineers are among the best in the industry, and as at 31 December 2019 our technology team accounted for 30% of our global workforce.

In our approach to technology, we embrace agile ways of working, promoting collaboration and innovation across the Company. We use cutting-edge technology and coding languages, such as Kafka and Clojure, to deliver world-class solutions for our customers.

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The scale and sophistication of our technology attracts exceptional talent to our business, creating a virtuous circle that drives continuous improvement, refinement and competitive advantage.

During 2019, we invested significantly in technology and data, with a number of major initiatives launched or in development.

Money and loan platform unification (or controlling client money)

In 2018, we began the first stage of unifying all of our geographies onto a single money and loan management platform globally, which will bring synergies and cost efficiencies. The benefits of our new global platform are highly auditable money movements and the ability to scale as we grow our customer base and product offerings. After deploying new reconciliation systems in the US in 2018, we completed the implementation of those systems as well as enhanced loan servicing in Germany and the Netherlands in 2019. In 2020, we plan to begin implementation of these global systems in the UK, which will continue to strengthen our position with regulatory bodies and investors.

The new era of instant decisioning

In December, we completed the initial build of our instant decision lending platform. This will drive superior customer experience and competitive advantage, providing instant loan decisions in just a few minutes, streamlining the user experience and providing swift access to funds.

The platform includes historical data built up over the last ten years, including more than 1 million loan applications and our own proprietary data lake containing data on 26 million businesses and 2 billion data points.

It is powered by Funding Circle's eighth generation of artificial intelligence enabled credit models, and the new architecture is decision orientated, meaning questions can change depending on the answers borrowers give. This allows us to customise our application forms in real time to the size, risk and channel a borrower comes to us from. We have not seen this level of customisation deployed in SME lending before.

This ground-breaking technology is a major development for Funding Circle. We're on track to automate 50% of all loan applications by the end of 2020, making the lending experience simple and seamless for hard working small businesses.

Data developments

It was a big year for strengthening our data foundations and tools.

A key development here was the implementation of new technology that channels lead data into our Customer Relationship Management system. This allows our sales teams to receive data in real time, which means they can respond more quickly and better serve businesses.

To enhance internal processes, we integrated a third party decision engine into our system infrastructure. The aim here was to give more power and autonomy to our risk and analytics teams, who are now able to test and deploy statistical models largely independently, with minimal support from our engineers. This integration therefore not only supports decisions on risk and pricing, but frees up engineering resource for other developments within the business.

We also launched the Funding Circle data lake, which brings data from our customers, third parties and internal systems into a single storage repository. This process enables us to configure the data we hold using cloud analytics, equipping our teams with powerful and accurate modelling tools and ensures we always have a single source of truth.

In addition, in the UK, the US, Germany and the Netherlands, we consolidated our regional data hosting centres into a single distributed infrastructure platform. This new platform ensures better data security and enhances our ability to monitor, scale and improve site and system performance. We have continued to enhance the tooling we provide to our technology teams in terms of testing and continuous code deployment, allowing those teams to test and deliver new products with agility.

Across all our work in this area, the security of customer information is of paramount importance. Through our new data repository and other security technology, we aim to ensure that personal data is protected against theft, loss, deletion, damage and corruption. We are also committed to investing in our accounting and security controls, providing additional reassurance for our customers and regulators.

Made to do more

Our success would not be possible without the talent and commitment of our people. Quite simply, our people are our business. Strongly aligned to our mission and values, sharing our customers' passion and drive, every single one of our employees is "made to do more".

We strongly believe that our unique culture, underpinned by our values, is key to our long-term success. Attracting, developing and retaining the best and most diverse talent will help us to achieve our mission of building the place where small businesses can get the funding they need to win. We work hard to create an environment where Circlers can thrive and feel connected to this mission. Circlers have always been owners in the business, through our employee equity scheme, and will continue to be as we grow.

Be Open

Open communication and keeping Circlers informed about our strategy and how we are tracking against it is fundamental to our culture.

We continue to find opportunities to communicate and engage with Circlers even as we grow. In 2019 we revamped our weekly Global and Local Gatherings, where everyone comes together across all office locations. We believe in the value of face-to-face communication, and the gatherings allow us to provide the opportunity for Circlers to communicate, share information and interact with each other, our founders and senior management.

Twice a year we also meet after the publication of our full and half-year results – the Full and Half Circle events – where we reflect on progress made and look ahead to the coming months. It is important to us that everyone has the opportunity to hear and understand the strategic direction of the business.

We also took the voice of our people into the boardroom, with a new global initiative designed to enable employee engagement with Board members. In line with new requirements of the UK Corporate Governance Code, this programme facilitates open and transparent discussion between our Board and Circlers, reinforcing the Company culture and ensuring Circlers can provide feedback directly to the Board.

Similarly, responsible conduct is an integral part of our culture. We encourage our Circlers to speak up if they see any issues of concern, and regularly remind them of the channels open to them to report any potential instances of wrongdoing, or anything not in keeping with our values or policies.

83%
CEO approval on Glassdoor as at 31 December 2019

Our values

Each office location has a unique culture but all are united by our shared values, passion and purpose, which run through everything we do.

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.

Think Smart and Make It Happen

As a leading FinTech firm, we want to ensure we have the talent and teams we need for the future, while also supporting innovation across the business. To this end, we are firmly committed to helping our people develop the skills and knowledge they need to progress.

FC Academy, a peer-to-peer learning network launched in 2017, continued to offer a range of courses to help Circlers develop. To date more than 230 courses have been delivered. This was supported by Learning Circle, our global online learning platform, where Circlers can access an extensive library to support development. In addition, each Circler receives Money2DoMore ("M2DM"), an annual allowance to take an external skills enhancement course. This development allowance can be accessed individually or collectively.

In 2019 we evolved our performance and development approach, introducing quarterly "check-ins" for a Circler with their manager, alongside a new 360 tool where individuals can exchange feedback with their peers. These check-ins are then underpinned by a more in-depth annual reflection and development conversation in Q1. We believe in creating an environment of continuous feedback in order for Circlers to grow and develop.

As of 9 December 2019, all FCA solo-regulated firms authorised under the Financial Services and Markets Act (2000) became subject to the Senior Manager and Certification Regime ("SMCR"). At its heart, SMCR is designed to improve culture and embed appropriate accountability and responsibility across financial services organisations. To ensure readiness for the new regime, we undertook a multi-year review of our internal operating model and structure, including delivering a comprehensive training programme to all our Senior Managers and Certified Persons. Plans are also in place to implement the conduct rules over the course of 2020 for all Circlers.

1,055
global headcount at 31 December 2019

75%
would recommend Funding Circle as a place to work

Our people continued

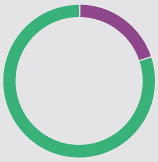
Gender breakdown

As at 31 December 2019

Overall

Female	396 / 37.5%
Male	659 / 62.5%

Group Board



Female	2 / 20%
Male	8 / 80%

Global Leadership Team

Female	4 / 44%
Male	5 / 56%

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

Stand Together

At Funding Circle, we know that diversity and difference are key strengths. We want to build a global team where people's skills and experiences complement each other and reflect the customers we serve. We therefore work to create an environment that welcomes, supports and provides equal opportunities to everyone, irrespective of age, disability, gender, marriage or civil partnership, pregnancy or maternity, race, religion or belief or 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 ensures all applications, including those from disabled persons, are treated equally and fairly.

In 2019, we continued to train Circlers on the importance of diversity including anti-harassment and unconscious bias, with a focus on how to build and maintain diverse teams. This includes training for our recruitment team, focused on how to source and interview for diversity.

Historically gender diversity has been challenging in the financial services and technology sectors. Overcoming this will require sustained focus and effort over multiple years in order to bring about the required change. We are excited for this challenge and believe Funding Circle will play a lead role in driving a sustainable long-term shift in gender diversity for the FinTech industry.

44%

females on Global Leadership Team as at 31 December 2019

Live the Adventure

Creating a great place to work has been a critical component of our evolution since 2010. We remain firmly focused on creating an environment where Circlers grow in their careers whilst having fun and enjoying the journey.

There is a wide range of activities and groups for Circlers to get involved with, including Circler-led groups such as Women@FC and FC Impact (more detail in the Sustainability section) as well as social networks and interest groups. We believe all of this helps to enrich the employee experience.

Women@FC is our women's network established in 2018 to generate an environment for women to succeed professionally and personally across all levels at Funding Circle. The group works across the business to deliver an activity programme in support of this. Funding Circle also drives building an active and supportive community within the FinTech industry, in which women can connect, share and encourage one another to reach their goals. This includes hosting a range of meetups, hack-nights and thought leadership events.

We firmly believe that creating and maintaining a strong culture is key to being happy in the workplace. Twice a year, we run a global culture survey to track employee engagement and satisfaction. In 2019, our satisfaction score held steady at 73%. Results from the survey also showed that a large majority of Circlers would recommend Funding Circle as a great place to work, and they believe they have the opportunity to develop the skills they want to grow.

We are proud of the unique culture we have built, and actively encourage Circlers to suggest ways to continue to improve working life at the Company. Towards the end of 2019 we began redefining our employee value proposition, which included in-depth sessions with the team across all levels and at each office location. This gave us a deep level of insight into and understanding of what is important to Circlers and what makes Funding Circle a great place to work. The output of this initiative will form the basis of our focus in 2020, and we look forward to updating on this in due course.

Board–Circler engagement

In 2019 I represented Circlers' feedback and views to the Board as part of our workforce engagement.

"

I do feel the feedback has sparked clear action and improvements, which shows we can really make a difference in our Company.

Isobel Kain
Senior Fraud Analyst

My role was to represent Circlers by taking the Board through our collective feedback, both positive and negative, which was gathered through workshops with people from across the business.

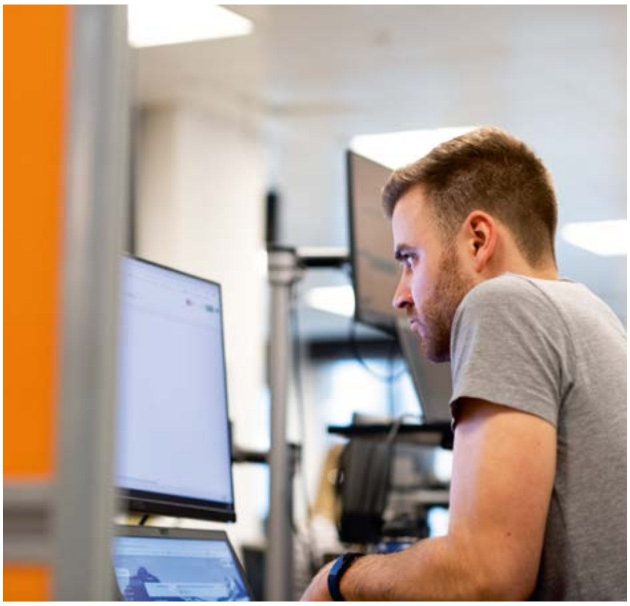
We did this to ensure Circlers have a voice in the boardroom and I was pleased to see how committed the Board and Global Leadership Team were to all the areas we discussed. Culture is such a crucial part of any business, and it is important to ensure there is effective communication with all stakeholders, including shareholders, customers, communities and employees.

I really enjoyed providing this feedback, and it was great to see the engagement of Circlers when discussing various topics. I do feel the feedback has sparked clear action and improvements, which shows we can really make a difference in our Company.

Building the place where small businesses get the funding they need to win

Funding Circle was founded in response to the global financial crisis and the shortcomings that it laid bare. Corporate responsibility is one of our core values that we seek to incorporate into all areas of the business, in particular through our corporate governance practices, enterprise risk management framework, human resources practices and stakeholder engagement.

Funding Circle sits in a unique position between small businesses at the centre of our communities, and investors and other stakeholders, that are increasingly focused on issues of corporate responsibility. While there is a growing consensus of the importance of these issues, there continues to be a wide array of approaches to engagement. We intend to take a practical approach, leveraging our existing corporate governance and enterprise risk management frameworks and setting achievable near-term goals and a base upon which to build for the future.



Section 172(1) statement

The Directors recognise that they have a duty under section 172 of the Companies Act 2006 to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

In discharging their section 172 duties, the Board has regard to the factors set out above, as well as to other factors which they consider relevant to the decision being made (for example, the views of regulators). While the Board accepts that not every decision it makes will result in a positive outcome for all of the Company's stakeholders, by considering the Company's purpose, mission and values together with its strategic priorities and having a process in place for decision making, the Directors aim to make sure that the Board's decisions are consistent and predictable.

For details on how the Board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, the key stakeholder considerations that were central to those discussions and the way in which the Directors have had regard to the need to foster the Company's business relationships with customers, suppliers and other stakeholders, please see the Corporate Governance Report on pages 49 to 63, including the Board's activities on page 55 and details on stakeholder engagement on pages 57 to 60. Some examples of how the Directors have had regard to the matters set out in section 172(1) (a)–(f) when discharging their section 172 duty during the year are also set out on page 56.

Developing our ESG strategy and approach

In 2019, we began to formalise our environmental, social and corporate governance ("ESG") strategy. Funding Circle has a strong corporate governance and risk management framework, in line with requirements under UK legislation such as the Companies Act 2006 and UK Corporate Governance Code. However, last year we developed a formal ESG strategy and high level implementation plans, with a view to integrating ESG considerations into our existing policies and practices.

Crucially, the Funding Circle Board engaged with and approved our new centralised approach and will provide oversight and strategic leadership for these initiatives. Senior management responsibility and accountability for our ESG strategy and implementation will be led by our Group General Counsel with a central working group to co-ordinate strategy, policies and implementation and local working groups to manage these initiatives in each of our geographies. Our in rk, defining ESG risks and issues that are material to our business, and incorporating ESG data and reporting into core business practices.

With good progress made during the year, we have developed a governance framework, begun establishing central and local working groups and expect to complete our ESG framework in early 2020. We will then focus on setting specific strategy objectives and co-ordinating with local working groups to ensure successful delivery. On the lending side, we have long-standing policies and practices that align with certain principles of responsible lending, including policies that prohibit lending to certain businesses, for example in connection with weapons manufacturing, alcohol, tobacco or adult industries.

We know that equity and debt investors, including investors in our loans and investment products backed by our loans, are increasingly focused on ESG issues when making investment decisions.

We also recognise that many other stakeholders including our employees, suppliers, customers, communities and local governments are also increasingly focused on ESG issues.

We look forward to further development of our ESG programme and to meaningful engagement with our stakeholders on these issues.

Meeting industry standards and regulatory requirements

Funding Circle is committed to upholding the highest industry standards across all our markets, and since we first opened for business in 2010 we have campaigned for the regulation of our sector. We actively engage with local, national, federal and supra-national government agencies, legislators, policy makers and industry groups to provide insight and policy leadership in connection with policy and rulemaking related to issues affecting SME borrowers, investors or lending in the FinTech industry. We regularly host events on industry issues, submit position papers, and participate in expert hearings and consultations, forums and other policy engagement initiatives.

Our efforts in this area include forming the UK Peer-to-Peer Finance Association (a self-regulatory platform lending association, which has recently merged into Innovate Finance following the new enhanced regulatory regime coming into force in December) in 2011; and helping to establish the Marketplace Lending Association in the US in 2016. Both associations in the UK and US promote responsible business practices and in the US, where the regulation is not bespoke, the MLA has developed a specific code of conduct for lending platforms.

In addition, we co-authored and adopted the Small Business Borrowers' Bill of Rights, which represented the first cross-sector consensus on responsible SME lending in the US. We are also members of the Nederland Crowdfunding Association; the FinTech Delivery Panel in the UK; and the Conference of State Bank Supervisors ("CSBS") FinTech Advisory Group in the US.

In 2019, we progressed our efforts to develop a self-regulated platform lending association in Germany – the European FinTech Association ("EFA"), which will be officially launched in early 2020. The EFA will act as a focal point for future regulatory FinTech projects in Europe, advancing a wide-ranging agenda designed to promote and protect SME funding. We also continued to build strong relations with stakeholders in Europe to influence the development of a pan-European regulatory framework. Ensuring the platform lending industry has a strong voice on the continent, we participated in negotiations on proposed Regulations for European Crowdfunding Service Providers, which were agreed at the end of 2019.

Sustainability continued

Making a difference

Our people are passionate, purpose-driven advocates of charitable causes and issues related to social impact, community engagement, financial inclusion and diversity, among others. To enable their engagement with the issues that matter to them, each year the Funding Circle volunteer group, FC Impact, co-ordinates internal action and initiatives.

During 2019, our employees:

- joined SF.Citi in the US to strengthen our reputation as a leader in technological innovation and social responsibility;
- took part in various campaigns in Germany, including blood and clothes donation schemes, a summer football bootcamp for local kids, a blood cancer registration programme, and a surplus food initiative for homeless people;
- ran a food bank for deprived families in the Netherlands, while also delivering financial education for the elderly and young people as part of the Ministry of Finance's Money Week; and
- took part in a range of schemes in the UK, including:
  - fundraising for charitable causes, with £20,000 raised for our charity of the year, Whizz-Kidz, and £5,000 raised for mental health, cancer research, men's health, Children in Need and Alzheimer's;
  - six feed-the-homeless events and food drives;
  - various sports challenges, including Tough Mudder, the Three Peaks Challenge, Prudential RideLondon, Battle Cancer, Great City Race, Shine Night Walk and Memory Walk;
  - charitable yoga schemes;
  - blood donation campaigns;
  - Dress for Success initiatives to help prepare underprivileged women for job interviews;
  - stem cell donations, with 46 new donors; and
  - laptop donations to refugee charities.

Minimising our environmental impact

Since Funding Circle was founded, climate change has emerged as the defining issue for humanity in the 21st century. As a responsible corporate citizen, we are committed to minimising the impact of our operations and combating the effects of climate change wherever possible.

Across the business, our natural resource consumption is driven by our physical locations and work environments, our tech infrastructure and our global travel.

In an effort to reduce our carbon footprint in these areas, we:

- use lighting with automatic shut-off in our offices;
- recycle and separate waste at all locations;
- monitor and minimise global mobility and employee travel between offices; and
- drive efficiency through automation and digitisation, reducing paper usage and overall energy consumption.

In 2018, we reported for the first time on our greenhouse gas ("GHG") emissions. In 2019, we continued to develop and enhance our data gathering capabilities for electricity, gas and water usage.

For example in the UK, we were pleased to see a notable reduction in gas consumption by 25% compared to last year. This was in part thanks to the introduction of environmental monitoring software into our premises to automatically limit energy consumption in areas that did not require it at the time.

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.

	2019 tCO_2e	2018 tCO_2e
GHG emissions scope 1 (direct)	**147**	154
GHG emissions scope 2 (indirect)	**493**	590
Total gross emissions (scope 1 and 2)	**640**	744
Total revenue (£m)	**167.4**	141.9
Intensity ratio – tCO_2e per £m of revenue	**3.82**	5.24

Additional commitments

As part of our broader commitments as a progressive and responsible company, we also take a stand on the following issue areas:

Human rights

- We respect and promote human rights through our employment policies and practices.
- We apply these policies and commitments 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.
- We have published a Modern Slavery Act Transparency Statement in compliance with section 54 of the Modern Slavery Act.

Code of Conduct

- We are dedicated to implementing and maintaining the highest standards of behaviour, ethics and integrity among our workforce.
- We have created a culture where adherence to these standards is recognised and rewarded.
- We will roll out a Code of Conduct in 2020 outlining these standards and addressing subjects such as integrity and conflicts of interest.

Anti-corruption and anti-bribery

- We recognise that our reputation for integrity and trustworthiness is critical to our success.
- We uphold all laws relevant to countering bribery and corruption in each of our jurisdictions.
- Our employees are trained and tested annually on bribery and corruption risks that may arise in the course of their employment at Funding Circle.

Key performance indicators

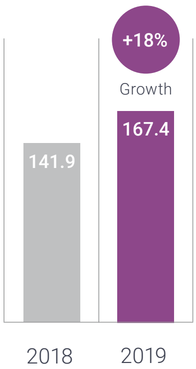
Delivering our strategy

Financial:

Statutory

Revenue (£m)

£167.4m



Link to strategy

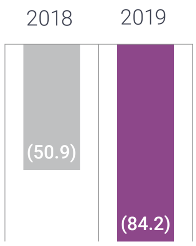
1 2 3 4

Definition

The Group generates revenues principally from: transaction fees earned from originating loans with borrowers; servicing fees from servicing of loans under management; and net investment income from Funding Circle sponsored (ABS) programmes.

Loss before tax (£m)

£(84.2)m



Link to strategy

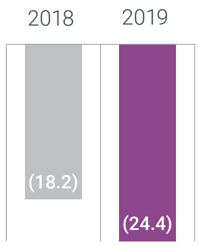
3 4

Definition

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

Loss per share (pence)

(24.4)p



Link to strategy

3 4

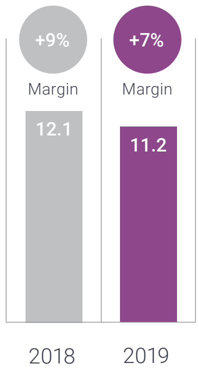
Definition

Loss per share is defined as the 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.

Alternative performance measures ("APMs")

Segment adjusted EBITDA (£m)

£11.2m



Link to strategy

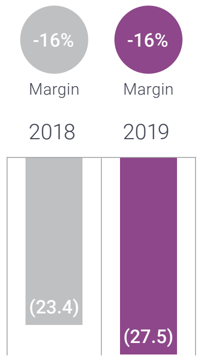
3 4

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.

Adjusted EBITDA (£m)

£(27.5)m



Link to strategy

2 3 4

Definition

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

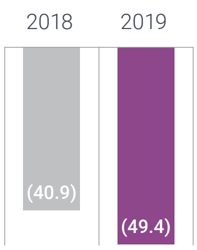
Focus areas relevant to our KPIs

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)

£(49.4)m



Link to strategy

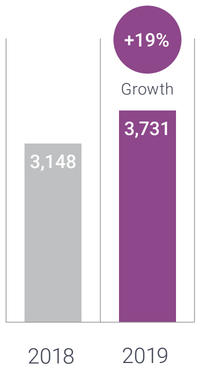
4

Definition

Free cash flow represents the sum of the net cash outflows from operating activities plus the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received and excluding IPO costs presented within operating 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.

Loans under management (£m)

£3,731m



Link to strategy

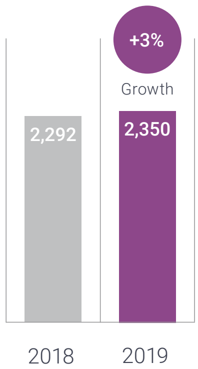
1 2 3 4

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.

Originations (£m)

£2,350m



Link to strategy

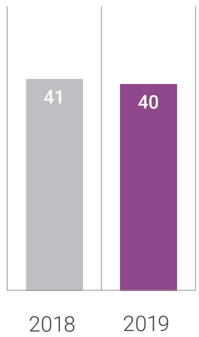
1 2 3 4

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.

Marketing costs as a % of revenue

40%



Link to strategy

1 4

Definition

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

Our results

"In 2019, the Group delivered revenue growth of 18% to £167.4 million. Loans under management grew 19% to reach a record £3,731 million with originations growing 3% to £2,350 million.

Overview

	Loans under Management (as at 31 December)			Originations (year ended 31 December)		
	2019 £m	2018 £m	Change	**2019 £m**	2018 £m	Change
United Kingdom	**2,583**	2,208	17%	**1,556**	1,531	2%
United States	**882**	736	20%	**619**	596	4%
Developing Markets	**266**	204	30%	**175**	165	6%
Total	**3,731**	3,148	19%	**2,350**	2,292	3%

The Group's loss before taxation was £84.2 million (2018: £50.9 million) which is stated after a non-cash exceptional write down of £34.3 million of goodwill and intangible assets related to the Developing Markets. Excluding the impairment, loss before taxation was £49.9 million (2018: £45.0 million).

Adjusted EBITDA loss of £27.5 million (2018: loss of £23.4 million) represented a similar margin to the previous year of negative 16.4% (2018: negative 16.5%). Before central costs of £38.7 million (2018: £35.5 million) segment adjusted EBITDA was £11.2 million (2018: £12.1 million) representing a margin of 7% (2018: 9%).

Geographic highlights

United Kingdom

The UK represents Funding Circle's largest and most mature Business Unit. In 2019, loans under management rose by 17% to £2,583 million whilst originations grew by 2% to £1,556 million. Originations from existing customers, who require less marketing investment and are therefore more profitable to the business, grew by 4% to 42% of UK originations as the business continued to build its reputation amongst small business owners as the leading way to access finance in the UK. In total, the UK delivered revenue growth of 16% to £108.5 million in 2019.

During the year, we commenced our new asset-backed bond programme and sponsored the securitisation of £250 million of SME loans in November 2019 in a joint transaction with Waterfall Asset Management. This followed a separate transaction in April 2019 where we assisted an institution to securitise c.£180 million of loans originated on Funding Circle's platform.

In June 2019 we launched a Private Fund raising initial lending commitments from the Merseyside Pension Fund. The overall intention is to raise more than £200 million over the next few years.

These new products helped to continue to diversify the range of investors on the Funding Circle platforms. In 2019 the mix of investors on the Funding Circle platform was: funds of 30% from retail investors; 30% from institutions and supra-national banks; and 40% from ABS programmes (including those sponsored by Funding Circle).

The year also saw the FCA introduce new rules and guidance for our sector following consultation with platforms. We are fully compliant with all of these changes and are supportive of these new measures. We believe they will further protect retail investors and raise standards across the wider industry.

United States

In the US, loans under management increased 20% to £882 million with origination growth of 4% to £619 million.

Revenue in the US grew 23% to £45.6 million, benefiting from strong net investment income associated with the ABS programme that launched in the year.

We sponsored the securitisation of $210 million of SME loans in August 2019 with a further securitisation of $247 million occurring in January 2020. Unlike the UK, the vast majority of funding in the US has come from institutional investors or through the ABS programme.

In April 2019, the US entered into a partnership with Lending Club where they refer all borrowers looking for small business loans to Funding Circle.

Developing Markets

The Developing Markets consists of Germany and the Netherlands. Loans under Management in the Developing Markets increased by 30% to £266 million with originations showing growth of 6% to £175 million.

Revenue for the year grew 19% to £13.3 million with repeat loans to existing borrowers the main driver of business growth.

Following a strategic review of operations in Germany and the Netherlands we are reorganising both businesses and centralising operations in London. We will focus on originating loans for local lenders we have partnered with in each market, as opposed to originating loans on our platform for institutional and retail investors.

We will continue to service the existing portfolio of loans of c.€300 million on behalf of our existing customers. Germany and the Netherlands represent only 8% of Group revenue but c.60% of adjusted EBITDA losses. By reorganising both businesses we move to a more efficient model that better serves small businesses in these markets whilst allowing the Group to accelerate its plans to deliver profitable growth.

Finance review

Profit and loss

	2019 £m	2018 (restated) £m	Change %
Net income ("Revenue")			
Transaction fees	**121.2**	112.9	7%
Servicing fees	**30.4**	24.9	22%
Net investment income	**10.5**	–	n/a
Other fees	**5.3**	4.1	29%
	167.4	141.9	18%
Operating expenses			
People costs (incl. contractors)	**(90.3)**	(79.2)	(14%)
Marketing costs	**(66.5)**	(57.8)	(15%)
Depreciation and amortisation	**(14.9)**	(12.5)	(19%)
Loan repurchase charge	**(6.5)**	(2.6)	(150%)
Impairment (exceptional)	**(34.3)**	–	n/a
IPO adviser costs (exceptional)	**–**	(5.9)	100%
Other costs	**(39.6)**	(34.7)	(14%)
	(252.1)	(192.7)	(31%)
Operating loss	**(84.7)**	(50.8)	(67%)
Loss per share (pence)	**(24.4)p**	(18.2)p	(34%)

Adoption of IFRS 16

From 1 January 2019, the Group adopted the new leasing standard (IFRS 16) retrospectively. The adoption resulted in a restatement of 2018 with a decrease in rental costs of £5.1 million and an increase in depreciation of £4.3 million.

Net income ("Revenue")

Transaction fees, representing fees earned on originations, grew 7% to £121.2 million driven by origination increases of 3% and a 5% increase in transaction yields to 5.2% (2018: 4.9%) following changes in loan mix and including the yield enhancing impact of a policy change in the US whereby a borrower is no longer required to refinance an existing loan when taking out a new loan.

Servicing fees, representing income for servicing loans under management, grew 22% to £30.4 million being a function of loans under management growth of 19% to £3,731 million. Servicing yield remained flat year on year at 0.9%.

Servicing fees are not earned when Funding Circle is servicing its own loans during the period that warehouses and securitisation vehicles are on balance sheet.

Net investment income represents the income on loans invested within the ABS warehouses, securitisation vehicles and the Private Funds, together with fair value gains or losses on those loans and the cost of servicing the debt incurred to finance the purchase of SME loans. This new income stream generated £10.5 million of net income in the year.

Other fees arise principally from a fee premium we received from certain institutional investors in the year in respect of buying back certain defaulted loans under a loan purchase commitment.

Finance review continued

Operating expenses

Total operating expenses increased during the year by 31% to £252.1 million (2018 restated: £192.7 million) compared with growth in revenues of 18%. These costs include the exceptional impairment of goodwill and assets associated with the Developing Markets business of £34.3 million. Excluding these items, operating costs were £217.8 million, 17% higher than 2018.

People costs (including contractors) which represent the Group's largest ongoing operating cost increased during the year by 16% to £104.6 million, before the capitalisation of development spend. This was driven by growth in average headcount of 16%. The share-based payment charge for the year, included in people costs, remained relatively flat at £8.0 million (2018: £8.6 million).

	2019 £m	2018 £m	Change %
People costs	**104.6**	90.0	16%
Less capitalised development spend ("CDS")	**(14.3)**	(10.8)	(32%)
People costs net of CDS	**90.3**	79.2	14%
Average headcount (incl. contractors)	**1,165**	1,004	16%
Year-end headcount (incl. contractors)	**1,139**	1,074	6%

Marketing costs are primarily directed at new customers rather than existing customers. These costs increased in the year from £57.8 million in 2018 to £66.5 million in 2019 as the Group continued to drive growth in both originations and awareness in the Funding Circle brand. Marketing spend overall was 40% of revenue during the year compared with 41% in 2018.

Depreciation and amortisation costs of £14.9 million (2018: £12.5 million) largely represent the amortisation of the cost of the Group's capitalised technology development.

Loan repurchase charges relate to the buyback of certain defaulted loans from certain financial institutions under a loan purchase commitment in return for a fee premium (reflected in Other fees). Under IFRS 9 this commitment is accounted for under the expected credit loss model.

An **exceptional impairment charge** of £34.3 million was recorded in respect of the Developing Markets (Germany and the Netherlands). The Group concluded that the future cash flow projections of these businesses were insufficient to support the carrying value of the associated goodwill and assets.

Other costs principally includes cost of sales, data and technology costs and property costs. These grew by £4.9 million to £39.6 million, following growth in the business and greater data consumption.

Operating loss grew to £84.7 million (2018 restated: loss £50.8 million). This increase mainly related to the exceptional impairment of goodwill and assets associated with the Developing Markets business of £34.3 million. Excluding exceptional items, operating loss was £50.4 million (2018: £44.9 million).

The **loss per share** was 24.4 pence (2018 restated: loss per share 18.2 pence) based on a weighted average number of ordinary shares in issue of 347.6 million (2018: 271.3 million).

Segment adjusted EBITDA and adjusted EBITDA

The Group also reviews the results of the Group and segments using segment adjusted EBITDA and adjusted EBITDA as alternative performance measures. This is to remove the impact of items that are not managed at a segment level including centralised product development costs and corporate costs as well as the depreciation and amortisation which arise principally on previously capitalised development spend.

The table below sets out a reconciliation between these measures and the statutory operating loss:

	2019				2018 (restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Revenue	**108.5**	**45.6**	**13.3**	**167.4**	93.6	37.1	11.2	141.9
Segment adjusted EBITDA	**34.0**	**(10.3)**	**(12.5)**	**11.2**	24.6	(5.7)	(6.8)	12.1
Segment adjusted EBITDA margin	***31%***	***(23%)***	***(94%)***	***7%***	*26%*	*(15%)*	*(61%)*	*9%*
Product development				**(26.4)**				(24.5)
Corporate costs				**(12.3)**				(11.0)
Adjusted EBITDA				**(27.5)**				(23.4)
Depreciation and amortisation				**(14.9)**				(12.5)
Share-based payments and social security costs				**(8.0)**				(8.6)
Foreign exchange loss				**—**				(0.4)
Exceptional items				**(34.3)**				(5.9)
Operating loss				**(84.7)**				(50.8)

On adoption of IFRS 16, 2018 was restated with a £5.1 million increase in adjusted EBITDA and a £4.3 million increase in depreciation.

United Kingdom

Segment adjusted EBITDA growth of 38% was achieved as the business continues to scale and grow its higher margin existing customer base. Compared to revenue growth of 16%, costs only grew 8% with marketing spend falling to 35% of revenue (2018: 40%). Revenue benefited from £4.9 million of net investment income on new products for the first time but lower conversion of applications to loans, following risk tightening, led to origination growth of 2% and transaction revenue growth slightly higher at 6%, with the difference a function of yield improvement. If central costs of product development and corporate costs had been allocated, the UK would still have reported an operating profit for the first time in the second half of the year demonstrating the profitable trajectory the business is on.

United States

Similar to the UK, conversion in the US declined following risk tightening and price increases, with originations flat year on year restricting transaction revenue improvement. However, net investment income on new products helped overall revenue growth to 23%. Segment adjusted EBITDA losses grew to £10.3 million as the US continued to invest for growth. Marketing spend rose 6 percentage points to reach 48% of revenue (2018: 42%), increasing the adjusted EBITDA loss margin to 23% (2018: 15%).

Product development costs which relate to the people and overhead costs of running and developing the Group's technology platforms grew on a net basis by 8%. This was the result of increased software engineering headcount as the Group invests in its global platforms including the build of its new instant decision lending platform.

Internal development costs capitalised as intangible fixed assets in 2019 were £14.3 million, up from £10.8 million in 2018.

Corporate costs of £12.3 million (2018: £11.0 million) included a full year's worth of operating costs associated with being a public company compared to only six months of such costs in 2018.

Share-based payments and the associated social security costs totalled £8.0 million, a decrease of £0.6 million on 2018. Social security costs are calculated with reference to the share price at the time of vesting and therefore this cost fluctuates as the share price moves.

Balance sheet and liquidity

Following the launch of the new funding products, the Group's balance sheet now includes the assets and debt of the ABS programmes. The table below breaks down the Group's balance sheet into its constituent parts.

	2019					2018 (restated)
	Warehouse SPVs £m	Securitisation SPVs £m	Private Fund £m	Other £m	Total £m	Total £m
Assets						
SME loans	**342.0**	**366.6**	**13.2**	**1.7**	**723.5**	—
Cash	**18.2**	**14.1**	**—**	**132.2**	**164.5**	333.0
Other assets	**—**	**8.4**	**—**	**99.1**	**107.5**	117.0
	360.2	**389.1**	**13.2**	**233.0**	**995.5**	450.0
Liabilities						
Bank debt	**265.8**	**—**	**—**	**—**	**265.8**	—
Bonds	**—**	**351.5**	**—**	**(2.8)**	**348.7**	—
Other liabilities	**—**	**—**	**—**	**62.0**	**62.0**	49.0
	265.8	**351.5**	**—**	**59.2**	**676.5**	49.0
Equity	**94.4**	**37.6**	**13.2**	**173.8**	**319.0**	401.0

In the warehouse phase of each ABS programme, loans are accumulated prior to a securitisation event. During this period, the Group controls and is exposed to the risks and rewards of the warehouse special purpose vehicles ("SPVs") and accordingly recognises the SME loans and associated bank debt onto its balance sheet.

On securitisation a new SPV raises capital through the issuance of rated senior and unrated junior bonds using the proceeds to purchase SME loans from the warehouse SPV. In turn the warehouse SPV repays both the bank debt and the monies that Funding Circle has invested. Regulations in both the UK and US require Funding Circle to invest alongside bondholders, retaining at least a 5% interest in the issued bonds. In this circumstance, where the interest is reduced to 5%, Funding Circle is no longer exposed to the significant risks and rewards of the securitisation SPV and derecognises both the underlying SME loans and bond liabilities from its balance sheet.

Finance review continued

Balance sheet and liquidity continued

In circumstances where the majority of the most junior unrated bonds have not been sold by the balance sheet date, Funding Circle is required to recognise and consolidate onto its balance sheet all the securitisation SPV's SME loans and bond liabilities. This is because the junior bonds rank beneath the senior bonds and therefore have the greatest risk and reward. As at 31 December 2019, in both the UK and the US, Funding Circle has retained a significant interest in the junior tranches of each securitisation SPV and has consolidated these vehicles in addition to the warehouse SPVs. Accordingly the Group balance sheet includes £708.6 million of SME loans and £617.3 million of related bank and bond liabilities plus other associated assets and liabilities from these SPVs.

Both the warehouse and securitisation SPVs are bankruptcy remote such that the net exposure to the Group is the £94.4 million and £37.6 million, respectively, of net equity invested in these vehicles as opposed to the total value of either the SME loans or the related bank or bond liabilities.

Cash flow

As at 31 December 2019, the Group held cash and cash equivalents of £164.5 million, down from £333.0 million at the end of 2018. Of the £168.5 million decrease, £117.7 million has been due to the introduction of the new investor products where Funding Circle has injected seed capital into the Private Funds and working capital into the warehouse phase of the ABS programmes as well as retaining a residual investment in the rated and unrated bonds in the securitisation vehicles. The table across shows how the Group's cash has been utilised.

Free cash flow, which is an alternative performance measure, has been redefined in the year following the new funding products, implementation of IFRS 16 and restatement of IPO cost presentation and therefore the comparatives have been restated. It represents the net cash flows from operating activities plus the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received and excluding IPO costs presented in operating activities. It excludes the warehouse and securitisation cash flows as well as the funding of these investments.

	2019 £m	2018 (restated) £m
Cash outflow from operations	**(27.0)**	(32.0)
Tax received	**–**	1.4
Net cash outflow from operations	**(27.0)**	(30.6)
Purchase of tangible and intangible assets	**(17.2)**	(13.3)
IPO costs in operating activities	**–**	5.9
Interest received	**1.9**	0.9
Payment of lease liabilities	**(7.1)**	(3.8)
Free cash flow	**(49.4)**	(40.9)
Net cash outflow associated with investor products	**(117.7)**	(1.1)
Net cash inflow from other financing activities	**0.7**	285.6
Effect of foreign exchange	**(2.1)**	0.5
Movement in the year	**(168.5)**	244.1
Cash and cash equivalents at the beginning of the year	**333.0**	88.9
Cash and cash equivalents at the end of the year	**164.5**	333.0

Cash outflow from operations was £27.0 million in line with the Group's adjusted EBITDA loss of £27.5 million.

Free cash flow has principally increased due to increased capitalised development spend of £3.5 million to £14.3 million (2018: £10.8 million) and increases in lease payments following office moves.

Outlook

The Group continues to focus on improving conversion across the platform, keeping net returns attractive and delivering profitable growth.

We expect combined UK and US revenue to grow by c.15%, skewed to the second half due to seasonality and lapping credit tightening actions taken in the first half of 2019.

The reorganised Developing Markets are expected to contribute c.£7m of revenue in 2020, weighted to the first half of 2020 from the wind-down of the existing model with the second half of 2020 seeing the scaling of the new model from a low base.

We are targeting Group adjusted EBITDA break-even in the second half of 2020 reflecting operational leverage as the business scales.

Group adjusted EBITDA losses for the year are expected to halve, benefiting from the new approach in the Developing Markets and marketing spend falling modestly as a percentage of revenue.

However, we continue to assess the possible impact of COVID-19 on borrowers and investors. The outbreak has not affected trading to date, but we are monitoring the situation closely given the uncertain outlook.

IGNITING OPPORTUNITIES

The Radical Tea Towel Company

The Radical Tea Towel Company was founded by Luke Pearce and his family in South Wales. They manufacture and sell a range of historical, political and literary gifts, including tea towels, mugs, aprons, cards and oven gloves. Luke and his family borrowed £200,000 last year to purchase new stock, helping them grow far quicker than they could have done without finance.

Sustainable growth: doing the right thing for our customers

In 2019, we have continued to evolve our risk management practices to support sustainable growth of our business activities. As we scale Funding Circle, we deploy more systematic and automated risk controls. For instance, a common technology tool is now in place across all markets to perform risk and control self-assessments ("RCSA"), register risk incidents and monitor remediation actions.

2019 highlights

We take the benefit of accumulating more loan performance data to continually upgrade our statistically driven analytical tools. In 2019, we designed and deployed the eighth generation of credit risk decision models in the UK and the fourth generation in the US. These new risk models take advantage of larger training samples to provide stronger risk discrimination through refined machine learning algorithms.

Sound credit risk management is central to the success of our lending platform. We continuously monitor our loan portfolios and make prudent adjustments when needed to manage credit risk on behalf of our investors. We also perform annual stress tests of our loan portfolios to ensure that our credit and pricing parameters are adequate to deliver resilient investors' returns even under economic downturn scenarios. In 2019, in the context of Brexit and uncertain macroeconomic conditions, we tightened credit underwriting parameters for the riskier borrower segments. As a result, we reduced credit acceptance rates and saw an improvement in credit performance and investors' returns. We also invested in strengthening our internal collections capabilities with new predictive models, automated workflows and specialist vendor relationships helping us increase effectiveness and productivity – providing further strength to navigate potential credit stress.

Funding Circle sponsored securitisation is becoming an increasing part of our diversified funding strategy. In order to manage the risks associated with a more sophisticated funding strategy, in 2019 we created an integrated risk management framework across the Risk, Finance and Capital Markets teams to consider funding and liquidity holistically as a principal risk with its own specific risk appetite, guardrails and controls.

In the UK, we also made significant changes to the retail secondary market, intended to enable investors to access funds from their performing loans more quickly and thereby providing a better outcome for retail investors generally. We are continuing to monitor our retail secondary market and evaluate further enhancements to improve liquidity for retail investors.

Risk management overview

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 Group, our shareholders, our customers and fellow Circlers.

A strong risk culture enables us to manage the risks inherent to our business activities seamlessly, every day, through the active participation of all Circlers. At Funding Circle all employees, regardless of their position, 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. Our approach to risk management consists of:

- putting our culture at the heart of everything we do;
- investing in robust risk capabilities, including advanced data and risk analytics; and
- doing the right thing for our customers, shareholders and employees.

As part of the second line of defence, the Risk team oversees risk management across the Company, in conjunction with the Legal and Compliance teams. We also support our first line of defence colleagues in their risk management activities – for example by providing training and expert support for centralised risk information management or complex credit analysis.

Board role

The Board is responsible for setting the strategy, corporate objectives and risk appetite. The Board has delegated responsibility for reviewing the effectiveness of the risk management framework to the Board Risk and Compliance Committee ("RCC"). On the advice of the RCC, the Board approves the level of risk acceptable under each principal risk category, whilst providing oversight to ensure there is an adequate framework in place for reporting and managing those risks.

Chief Risk Officer and the Risk function

Our Chief Risk Officer ("CRO") leads the Risk function, which is independent from the business and has a direct reporting line to the Board. He is responsible for developing, maintaining and implementing the ERMF. He is also responsible for providing assurance to the Board that the principal risks are appropriately managed and that Funding Circle is operating within risk appetite.

Risk management policies

We have formalised and implemented risk management policies defining mandatory requirements to mitigate the principal risks that we face, with clear risk limits and requirements to monitor risks and adherence to limits. The Risk and Compliance teams regularly review these policies and controls to verify compliance and to reflect changes in the external environment and our activities.

Risk appetite

Our risk appetite is defined as the level of risk that we, as a Company, are prepared to accept whilst pursuing our core business strategy, recognising a range of possible outcomes as business plans are implemented. The 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.

Principal risks

Our principal risks represent defined groupings that we use to help consistently identify, assess, manage, monitor and report risks. Using consistent risk categories enables risks to be aggregated to determine their overall impact to the organisation. We have identified five principal risks:

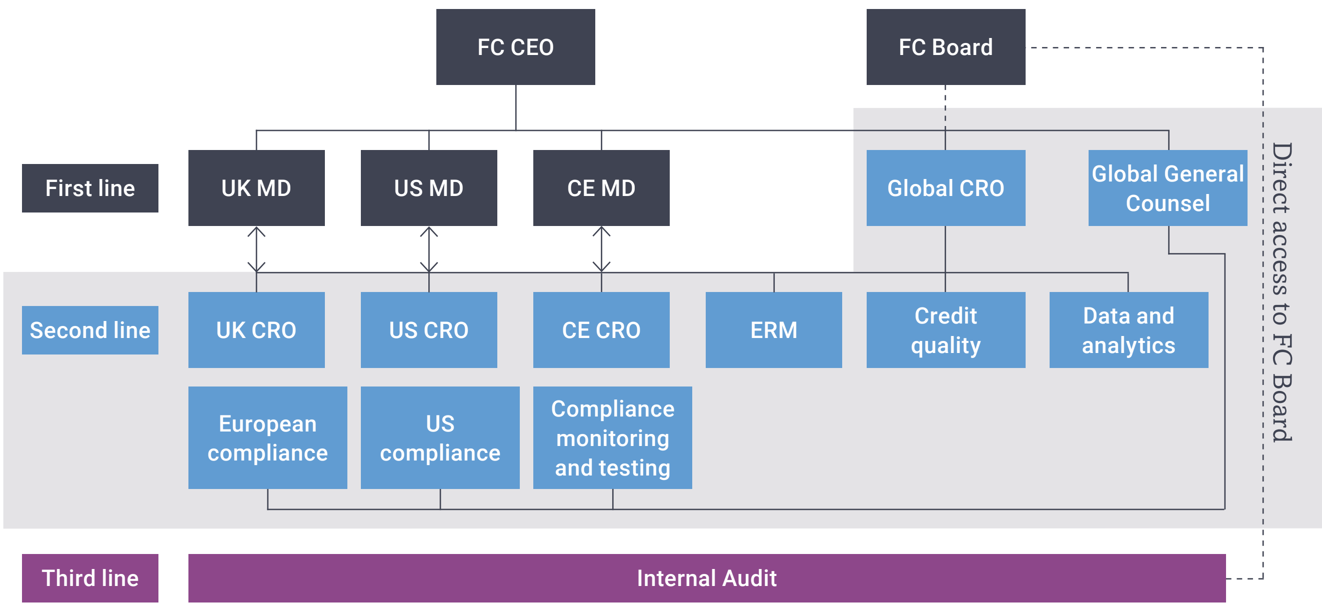
1. Strategic risk
2. Platform funding and liquidity risk
3. Credit risk
4. Operational risk
5. Reputation and conduct risk

Risk governance

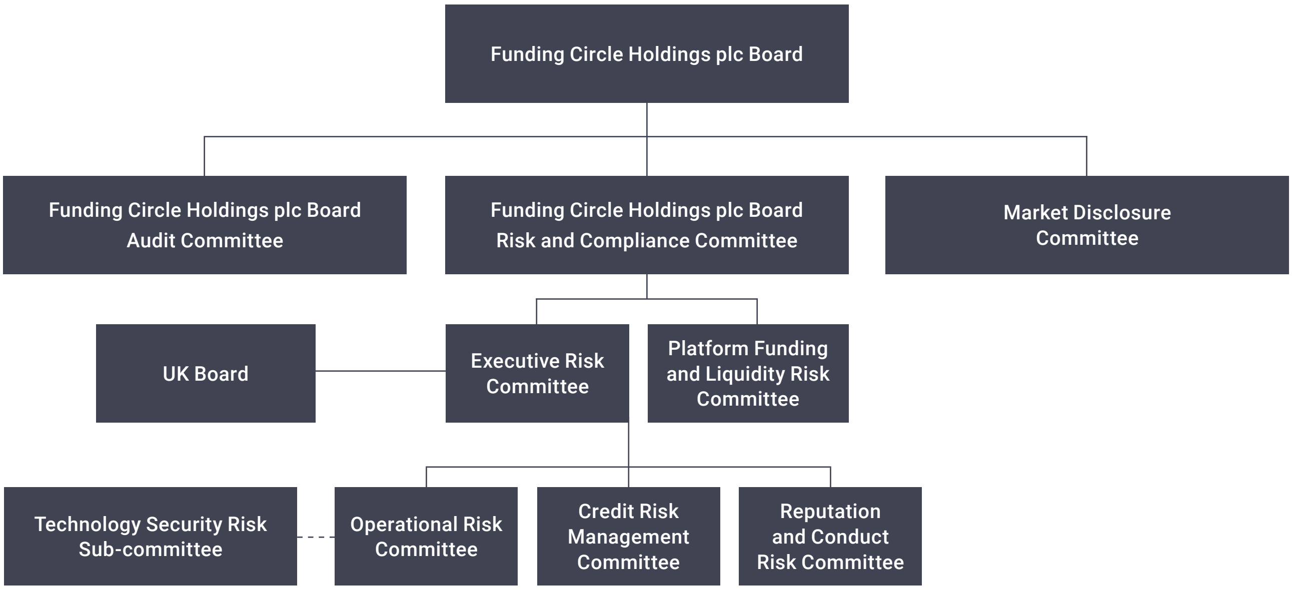
Funding Circle has a risk governance framework that is documented in the ERMF. Responsibility for defining and approving the ERMF lies with the Board. The risk governance framework includes delegations of authority from the Board, the UK Board and Principal Risk Committees as appropriate.

We operate a Three Lines of Defence model across all markets in which we operate. Funding Circle's Three Lines of Defence model and risk governance structure have been designed to manage our principal risks in a consistent manner across the Group, as set out below.

Three Lines of Defence



Risk governance structure



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

Executive Risk Committee The ERC meets quarterly 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 ERC.

Platform Funding and Liquidity Risk Committee The Platform Funding and Liquidity Risk Committee meets on a monthly basis and reviews Business Unit platform funding risk and Funding Circle Group liquidity risk.

Credit Risk Management Committee Credit Risk Management Committees are held monthly in each Business Unit. They focus on ensuring that the credit risk of each Business Unit's loan portfolio 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.

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

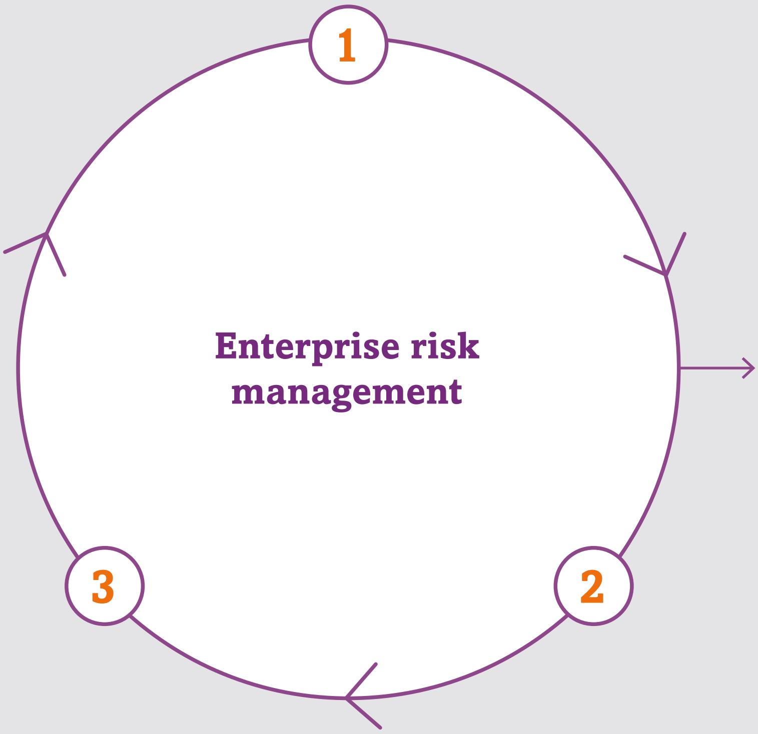
Risk culture

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 global programme of "Doing the Right Thing" every day for our customers, employees and community.

Risk assurance

Assurance on the management of risk is provided by the Three Lines of Defence model including the Funding Circle Internal Audit function. We also execute external annual controls assurance reports (e.g. United Kingdom ISAE 3402) certified by auditors in various geographies in which we operate.

Risk assessment framework



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

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.

Evaluate
As part of its responsibilities under the ERMF the Board has formally recognised a series of risks that are continuously present at 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 designated 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 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.

Principal risks and uncertainties

The Board confirms that in 2019 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:

- Funding
- Economic environment
- Portfolio risk management
- Regulatory
- Reputation
- Liquidity
- Client detriment
- Information security
- Financial crime
- Technology
- Client money

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.

RISK APPETITE Funding Circle will make efficient use of its available resources to build a sustainable, diversified and profitable business that can successfully adapt to environment changes.

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Economic environment		
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 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. Key management actions include (but are not limited to): - annual stress testing of loan portfolios in each market and independent review by external party; - resilient pricing and credit strategy and continuous tuning of risk and pricing parameters to correct for possible deviations in returns; - monthly monitoring of internal and external signals as part of the Credit Risk Management Committees; - independent validation and continuous monitoring of the performance of risk models; - agile capability to rapidly deploy pricing and credit strategy adjustments deemed necessary; and - in-house experienced collections and recoveries capabilities with built-in scalability.	↗ 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. Although GDP and employment levels remain strong, consumer and commercial insolvencies are trending adversely. Q3 2019 Bank of England statistics showed the highest consumer insolvency rate since Q3 2011 and the highest company insolvencies rate since Q1 2014. We are also noticing negative signals from recent business confidence surveys in the UK.

Funding and liquidity risk

Funding and liquidity risk is defined as the risks associated with platform funding (matching borrower demand and investor cash supply), capital commitments and corporate liquidity through normal and stress scenarios.

RISK APPETITE Funding Circle will make efficient use of its balance sheet and optimise and diversify funding and liquidity sources to enable a balanced funding strategy whilst limiting downside risk.

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Funding risk		
The risk that borrower loan demand cannot be met when and where they fall due or can only be met at an uneconomic price. This risk varies with the economic attractiveness of Funding Circle loans as an investment, the level of diversification of funding sources and the level of resilience of these funding sources through economic cycles.	Funding Circle's business model is to be a lending platform that matches the supply of capital to the demand of SME borrowers more efficiently and sustainably than banks. We carefully manage the match between capital supply and SME loan demand by: - actively managing concentration risk and working to diversify sources of funding; - developing a forward-looking pipeline of potential investors; - managing Funding Circle's lending activities whether through direct lending capacity, securitisation capacity or investment fund lending vehicles; - considering a broad range of management information and key performance indicators at the Funding and Liquidity Risk Committee, Risk and Compliance Committee and Board; - having a seasoned Capital Markets sales team and a team responsible for structuring transactions; and - managing potential conflicts of interest between investors and Funding Circle.	↗ In the context of Brexit uncertainty, we observed relatively lower retail investor demand, as well as retail investor outflows in the UK. We continue to expand our reach to new investors and have expanded our lending strategy. We accelerated the diversification of our funding sources with Funding Circle sponsored UK and US ABS bond products and private debt funds in the UK and Europe.
Liquidity risk		
The risk that Funding Circle liabilities cannot be met when and where they fall due or can only be met at an uneconomic price.	We carefully manage Funding Circle liquidity by: - setting clear guardrails for FC liquidity; - maintaining a prudent level of liquidity to cover unexpected outflows to ensure that we are able to meet financial commitments for an extended period; - considering a broad range of management information and key performance indicators at the Funding and Liquidity Risk Committee and Risk and Compliance Committee; and - developing a dedicated and effective Treasury function.	→ Our overall approach to having a robust balance sheet and prudent management of liquidity remains unchanged.

Principal risks and uncertainties continued

Credit risk

Credit risk is the risk of financial loss to an investor should any borrower fail to fulfil their contractual repayment obligations. Credit risk management is the sum of activities necessary to deliver a risk profile at portfolio level in line with Funding Circle management's expectations, in terms of net loss rate, risk-adjusted rate of return and its volatility through economic cycles.

RISK APPETITE Whether or not Funding Circle owns any credit risk, credit risk of loans will be managed with the utmost care and attention to deliver credit performance and returns in line with expectations.

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Portfolio risk management		
Borrower acquisition: Credit performance and returns of new loans can deviate from expectations due to several factors: changes in credit quality of incoming applications, calibration of risk models or strategy parameters and control gaps in processing loan applications. Portfolio risk management: Credit performance and returns of existing portfolio can deviate from expectations due to several factors: deterioration of credit environment, increased competition driving higher prepayment rates, effectiveness of portfolio monitoring and collections and recoveries.	Funding Circle's aim is for well-balanced loan portfolios that generate positive returns for investors through the economic cycle. We are actively managing credit risk by: - formulating credit risk policies (covering credit assessment and risk grading, portfolio monitoring and reporting, collections and recoveries) and ensuring adherence to these policies; - recruiting, training and managing expert risk professionals with the adequate skills, objectives and capacity; - establishing the formal mandates and authorisation structure for setting risk parameters and approving loans; - performing independent quality control of credit decisions; - limiting concentration risk to counterparties and industries; - actively monitoring the performance of the loan portfolios and the market trends that could affect performance; - implementing adequate procedures to control for model risk (including the independent validation and monitoring of credit scoring models); and - performing annual stress tests with high quality standards.	↗ In 2019 we have been facing an increasingly uncertain macroeconomic environment with adverse emerging trends of company insolvencies. In this context, we have continued to strengthen the quality of our risk scorecards, leveraging larger and more mature datasets to develop refined risk models. In 2019 we have deployed in the US our fourth generation of risk scorecards, and in the UK the eighth generation. We have adopted tighter underwriting parameters to minimise risk volatility. We have improved and deployed a global suite of credit risk management information and dashboards across all markets. We have improved collections and recoveries policies and practices and increased resources and automation to enable more productivity and scalability.

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 company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure.

RISK APPETITE Funding Circle will not engage in activities that detract from its 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		
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 remain vigilant 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. We continue to implement and maintain business practices and controls focused on regulatory risk, including controls designed to comply with the Senior Managers Certification Regime in the UK. We have expanded our teams focusing on governance and controls, and continue to train all employees in such matters as relevant to their role.	→ There have been some changes to the external and regulatory environment in 2019 in the UK with the introduction of the Senior Managers and Certification Regime and new peer-to-peer ("P2P") regulations. In the US, a number of state law changes impacting commercial lending have also been announced. A new licensing regime in Germany has been announced with implementation date in 2020, but we are well prepared for the introduction of the new regulation and do not consider there to be increased regulatory risk.
Reputation risk		
Operational or performance failures could lead to negative publicity that could adversely affect our brand, business, results, operations, financial condition or prospects.	We continue to implement and maintain business practices and controls focused on reputation management, including: - ensuring RCC consideration of new or iterated products and initiatives; - engaging fully with regulators in relation to any such new or iterated products and initiatives that might impact on customer outcomes; - undertaking specific projects to address identified risk topics and issues; and - updating and refining our approach to issue and risk identification and management.	↗ Our overall approach to prudent management of reputational and brand risk remains unchanged. In 2019 we faced a more challenging media environment, with increased scrutiny of the P2P industry generally and of our secondary retail investors market in particular.
Client detriment		
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. Investments have been made in our Compliance Monitoring and Testing and Internal Audit functions, and customer-impacting topics have been the subject of review (for example data privacy, complaints handling and sales conduct).	→ Complying with applicable laws and regulations and ensuring positive customer outcomes continues to be a fundamental priority for Funding Circle. In 2019 we invested significant efforts to make our secondary market operate in the best possible way for our retail investors, aiming for a fair outcome to all participants.

Principal risks and uncertainties continued

Operational risk

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

RISK APPETITE Funding Circle will operate well-managed processes with reliable performance and effective controls preventing significant and non-anticipated operational risk losses.

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Information security		
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. The Board Risk and Compliance Committee and Executive Risk Committee review our key information security risks to ensure that they are within risk appetite. We have a dedicated Information Security team which has implemented a robust, multi-layered security infrastructure that includes prevention and detective controls.	→ While our information security risks are increasingly mitigated over time, the Company's growth makes it more attractive to attackers over time as well. To stay ahead of these attackers, we periodically update our Information Security Roadmap to reflect evolution of the security threat landscape, with a focus on data protection, visibility and incident response. The Technology Security and Risk Committee ensures oversight over the mitigation of key security risks.
Financial crime		
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. We have a dedicated Financial Crimes Operations team within the first line of defence that is advised, challenged and monitored by the second line Financial Crime Compliance team.	→ Complying with the laws and regulations designed to counter money laundering, terrorist financing, corruption and bribery is fundamental to Funding Circle's operations.

Operational risk continued

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Technology risk		
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. We invest significantly in the Group's technology infrastructure to ensure that the platform is resilient and scalable to support business growth. Key risk indicators are reviewed as part of the Operational Risk Committee. We have a dedicated Information Security and Technology Risk team that is responsible for risk oversight.	↘ We continue to improve our technology platform and migrate from legacy systems to mitigate some of our key technology risks. We perform annual disaster recovery tests to provide assurance of the effectiveness of our disaster recovery plays. Our Technology Security and Risk Committee ensures oversight over the mitigation of key risks in this area.
Client money risk		
Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure.	Funding Circle holds funds for retail and institutional investors in segregated client money bank accounts in line with the Financial Conduct Authority's CASS regulations. We continue to manage the risk by: - a monthly CASS governance sub-committee solely focused on making decisions in relation to client money, as well as reviewing management information and regulatory returns; - oversight from the Funding Circle Ltd Board including an annual report, prepared for and approved by the Senior Manager with responsibility for the firm's compliance with CASS, that highlights client money risks and steps to mitigate; and - Internal Audit focusing on regulatory returns and governance, as well as specific compliance monitoring activity.	→ We have maintained a robust control environment in relation to payment creation, payment authorisation, reconciliation review and monthly reporting. We continue with 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 2022 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 10 to 21, 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, aside from macroeconomic factors, 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 datasets, 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 2020 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, Loans under Management ("LuM"), conversion rates 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, short-term liquidity constraints 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 42 to 47. They have also considered the potential impact of the risks on the viability of the Group.

Assessment of viability

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 - Credit risk	Under a severe downturn it is expected that: - there would be a significant increase in the number of borrowers defaulting; - the returns for investors would be negatively affected resulting in a withdrawal of funding; and - this in turn would reduce the level of originations unless much higher incentives were offered to investors to continue funding. A further subset of risks including the reduction in trust from both borrowers and investors has also been considered within this scenario. 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 assessment 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 2022.

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.

Chairman's introduction

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

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 UK Corporate Governance Code 2018 (the "Code"). The Code can be found on the FRC website, www.frc.org.uk. The Board considers that the Company has complied with all provisions set out in the Code during the year.

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

Governance

Dear shareholders

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

UK Corporate Governance Code

The Board is committed to the highest standards of corporate governance and the Company has complied with the Code during the year.

The Company's corporate governance policies and procedures adopted prior to admission in 2018 were prepared to comply with the Code. In addition, the Company Secretary carried out a detailed analysis of the impact of the Code to identify any changes required in 2019 to ensure compliance with the Code, which resulted in (among other things) the appointment of Cath Keers as the designated Non-Executive Director for workforce engagement. People and culture have always been considered fundamental to the success of the business and, in her new role as the designated Non-Executive Director, Cath has worked closely with the Company Secretary to formalise and enhance the extensive workforce engagement already in place. See further details on page 58.

The Corporate Governance section of the Annual Report sets out further details on how we have complied with the principles of the Code during the year, highlighting key areas of focus and challenge for the Board and its Committees.

Board changes

As previously announced, Sean Glithero will be stepping down as Chief Financial Officer and from the Board later this year, and will be succeeded by Oliver White. Further detail on the process followed in relation to Oliver's appointment, and the Nomination Committee's approach to succession planning generally, is set out in the Nomination Committee Report on pages 64 and 65.

Governance activity

Our Corporate Governance Report describes our work to continue developing Board and Committee processes and supporting 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.

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. We have held a number of meetings with institutional shareholders this year and we look forward to continuing to proactively engage with shareholders in an open and transparent way throughout 2020.

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 2019.

Andrew Learoyd
Chairman
12 March 2020

An experienced and effective leadership team

Andrew Learoyd

N R

Chairman of the Board

Term of office: Appointed to the Board as a Non-Executive Director in February 2010 and became Chairman of the Board in May 2016.

Committee membership: Andrew has chaired the Nomination Committee since September 2018 and is a member of the Remuneration Committee. He also attends meetings of the Risk and Compliance Committee and Audit Committee by invitation.

Independent: On appointment.

Skills and experience: Andrew spent 23 years working in investment banking as a research analyst in corporate finance and equity capital markets and finally as Chief Operating Officer of the Equities Division in Europe of Goldman Sachs. He retired as a Managing Director of Goldman Sachs in 2006.

External appointments: Andrew has been involved as an angel investor, Non-Executive Director and consultant to several start-up businesses.

Samir Desai CBE

Co-founder, Chief Executive Officer

Term of office: Samir co-founded Funding Circle in 2010, and was appointed to the Board as Chief Executive Officer in January 2010.

Committee membership: Samir attends meetings of the Risk and Compliance, Remuneration, Audit and Nomination Committees by invitation.

Independent: Not applicable.

Skills and experience: Prior to founding Funding Circle, Samir was 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.

External appointments: None.

Board Committees

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

Cath Keers

R N

Non-Executive Director

Term of office: Cath was appointed to the Board as a Non-Executive Director in May 2018. She became Chair of the Remuneration Committee in September 2018.

Committee membership: Cath chairs the Remuneration Committee and is a member of the Nomination Committee. Cath is also the designated Non-Executive Director for workforce engagement.

Independent: Yes.

Skills and experience: 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 in 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.

External appointments: Cath currently serves as Chair of Ustwo Fampany Limited, an independent digital product, games and venture business, as Non-Executive Director and Chair of the remuneration committee at The British United Provident Association Limited (parent company of the Bupa group of companies) and as Non-Executive Director at Sage Group plc and Trustedhousesitters Ltd. She is also an adviser to a number of small businesses predominantly in the technology sector.

Hendrik Nelis

RC

Non-Executive Director

Term of office: Hendrik was appointed to the Board as a Non-Executive Director in September 2013.

Committee membership: Hendrik is a member of the Risk and Compliance Committee.

Independent: No.

Skills and experience: Hendrik joined Accel in 2004 and focuses on software, FinTech and consumer internet companies. He led Accel's investments in KAYAK (NASDAQ: KYAK, acquired by Priceline), Showroomprive (EPA: SRP), Funding Circle (LON: FCH), CHECK24, WorldRemit, Celonis and Instana.

Hendrik started his career in Silicon Valley as an Engineer at Hewlett-Packard before founding a venture-backed software company. He is from the Netherlands and graduated from Harvard Business School and Delft University of Technology.

External appointments: 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

Term of office: Sean was appointed to the Board as Chief Financial Officer in November 2017. As announced, Sean will be succeeded by Oliver White later in the year.

Committee membership: Sean attends meetings of the Risk and Compliance, Remuneration, Audit and Nomination Committees by invitation.

Independent: Not applicable.

Skills and experience: 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.

External appointments: None.

Eric Daniels

RC A

Non-Executive Director

Term of office: Eric was appointed to the Board as a Non-Executive Director in September 2016. He became Chair of the Risk and Compliance Committee in September 2018.

Committee membership: Eric chairs the Risk and Compliance Committee and is a member of the Audit Committee.

Independent: Yes.

Skills and experience: 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.

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

Geeta Gopalan

A RC

Non-Executive Director

Term of office: Geeta was appointed to the Board as a Non-Executive Director in November 2018. She became Chair of the Audit Committee in November 2018.

Committee membership: Geeta chairs the Audit Committee and is a member of the Risk and Compliance Committee.

Independent: Yes.

Skills and experience: 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 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.

External appointments: Geeta serves as Non-Executive Director of Virgin Money UK PLC (formerly CYBG plc) (where she is Chair of the risk committee and a member of the audit committee), Wizink Bank S.A. (where she is Chair of the risk committee and a member of the audit committee) and Ultra Electronic Holdings plc.

Neil Rimer

Non-Executive Director

Term of office: Neil was appointed to the Board as a Non-Executive Director in March 2011.

Committee membership: None.

Independent: No.

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

External appointments: Neil is currently a Director or observer on various boards of companies based in the UK, Europe and the US including Prodigy Investments Limited, Raisin GmbH, Nexthink SA and Pitch Software GmbH. He is also a Director of Human Rights Watch.

Bob Steel

N

Senior Non-Executive Director

Term of office: Bob was appointed to the Board as a Non-Executive Director in July 2014 and became Senior Independent Director in September 2018.

Committee membership: Bob is a member of the Nomination Committee.

Independent: Yes.

Skills and experience: 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.

External appointments: Bob is a Partner at Perella Weinberg Partners and a Director of Union Square Hospitality Group. He 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. He is also a trustee of the Economic Club of New York, Hospital for Special Surgery and the Aspen Institute.

Ed Wray

A R

Non-Executive Director

Term of office: Ed was appointed to the Board as a Non-Executive Director in August 2011.

Committee membership: Ed is a member of the Audit and Remuneration Committees.

Independent: Yes.

Skills and experience: 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 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.

External appointments: Ed also serves as a Director for a number of companies in the UK including Prodigy Finance Limited, Prodigy Investments Limited and The London House Exchange Limited. He is also Chairman of Coach Core Foundation and Mental Health Innovations.

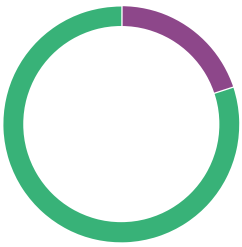
Corporate governance report

The Board has a collective objective of promoting the long-term success of the Company for its shareholders and provides dedicated leadership in the development and promotion of the Group's strategy, and the 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

Female 20%

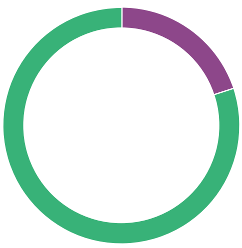
Male 80%



Board composition

Executive 20%

Non-Executive 80%



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. 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 23). Through our employee share plans, all Circlers have the opportunity to become shareholders in the Company, which helps to ensure they are aligned with our mission, vision and objectives. The Board regularly receives reports on people-related matters, including results from our culture surveys, and the individual Directors spend time with employees, for example by participating from time to time in our Full and Half Circle events or as part of the workforce engagement programme run by Cath Keers in her role as the designated Non-Executive Director for workforce engagement. For more details on the Board's engagement with the workforce, please see page 25 in the Our People section of the Strategic Report and the Our Stakeholders section on page 58.

Matters reserved for 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 met regularly 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 for 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 on pages 53 and 54, which are reviewed and updated as necessary as part of an annual review. 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/investors/governance.

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 64

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 the Global Leadership Team
- 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 66

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 and risk management 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 engagement, independence and approves the provision of non-audit services by the external auditors

Risk and Compliance Committee

Key objectives

Reviewing and making recommendations to the Board in relation to the Group's internal control and risk management systems and compliance with the Group ERMF, 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 72

Principal responsibilities

- Assesses the emerging and current principal risk exposure of the Group and advises the Board on those risk exposures and future risk strategy
- Advises the Board on the Group's overall risk appetite, tolerance and strategy
- Reviews the Group's capability to identify and manage new risk types
- Monitors and keeps under review the adequacy and effectiveness of the Group's internal control and risk management systems, in conjunction with the Audit Committee
- Considers and approves the remit and effectiveness of the Risk Management and Compliance functions
- 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, funding and liquidity, credit, operational and reputational and conduct risks and managing their impact on the Group
- Considers and approves the annual risk and compliance monitoring and testing plans

Corporate governance report continued

Matters reserved for the Board and role of the Committees continued

Remuneration Committee

Key objectives

Determining the remuneration of the Directors and the Global Leadership Team 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 75

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 the Global Leadership Team 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

Market Disclosure Committee

In addition, the Board has delegated to the Market Disclosure Committee responsibility for overseeing the disclosure of information by the Company to meet its obligations under the Market Abuse Regulation, the Financial Conduct Authority's Listing Rules and the Disclosure and Transparency Rules. The Market Disclosure Committee is chaired by the Company Secretary and comprises the Chairman of the Board, the Chair of the Audit Committee, the CEO, the CFO and the CRO.

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 CEO, 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 table below sets out attendance at Board and Committee meetings in 2019, including the strategy offsite held at the Company's San Francisco offices in October 2019.

The Company Secretary or her Deputy attended all of the Board and Committee meetings in 2019.

	Board	Audit	Risk and Compliance	Remuneration[1]	Nomination
No. of meetings	**11**	**3**	**3**	**8**	**1**
Andrew Learoyd	11			8	1
Samir Desai	11				
Sean Glithero	11				
Eric Daniels	11	3	3		
Geeta Gopalan	11	3	3		
Cath Keers[2]	10			8	1
Hendrik Nelis	11		3		
Neil Rimer[2]	10				
Bob Steel[2]	10				1
Ed Wray	11	3		8	

1. The Remuneration Committee held four ad hoc meetings in 2019 (in addition to the four originally scheduled) to discuss, among other things, the Remuneration Policy to be adopted by shareholders at the Company's AGM in June 2019. See further detail on the Remuneration Committee's activities in 2019 on page 75.
The Remuneration Committee has four meetings scheduled for 2020, but additional meetings will be scheduled as required.
2. Cath Keers, Neil Rimer and Bob Steel were unable to attend certain meetings (as indicated in the table) that were called on relatively short notice due to prior commitments.

The Board and Board Committee meeting schedule for 2020 has been approved by the Board and the Board will meet formally at least six times during the year with an additional Board strategy session. Ad hoc meetings may be called as and when appropriate, as was the case in 2019.

The Board's activities throughout the year are underpinned by our external reporting calendar and our internal business planning processes. A rolling annual agenda ensures that all important topics receive sufficient attention. Standing items provide an anchor to the strategy and provide the Board with a consistent view of progress during the year, whilst sessions on priority topics allow deeper insight. A summary of the Board's key activities during 2019 is set out on the next page. In addition, some examples of decisions taken by the Board in 2019, in the context of its section 172 duties, are set out on page 56.

2019 Board activities

Q1 2019

- Full-year results announcement
- Annual Report and Accounts
- Update to 2019 budget and plan
- Review of credit, funding and liquidity risk
- Resilience (including recession risk planning)
- Proposal for new global technology platform

Q2 2019

- Review and approval of new investor products
- Approval of new US office premises
- AGM
- 2019 budget and plan update
- Product strategy review
- Proposal to open up the FC marketplace

Q3 2019

- Half-year results announcement
- Investor relations
- No-deal Brexit planning
- New generation credit risk models
- Bringing the employee voice into the boardroom
- ESG strategy

Q4 2019

- Strategy offsite
- Automation
- Culture review
- Employee reward proposition
- 2020 budget and plan

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;
- 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, as appropriate. All Directors have direct access to senior management should they require additional information on any of the items to be discussed.

The Audit Committee and the Risk and Compliance Committee receive further regular and specific reports to allow the monitoring of the adequacy of the Group's systems of internal controls (described in more detail in the Audit Committee Report on page 66 and the Risk and Compliance Committee Report on page 72).

Corporate governance report continued

Board decision making and section 172 duties

As set out in the Section 172(1) Statement on page 26, the Directors are fully aware of their section 172 duties, and some examples of how they have had regard to the matters set out in section 172(1)(a)–(f) when discharging their duties during the year are set out below. See also pages 57 to 60 for further detail on how the Board engages with key stakeholders.

Changes to secondary loan sale mechanics

The Board reviewed and approved the launch of the new selling tool designed to improve UK retail investors' ability to access their funds more quickly and regularly. See page 18 for more detail. In making its decision, the Board carefully considered the impact on retail investors, including taking into account retail investor feedback, with a focus on ensuring that the changes would improve their lending experience and were equitable as between investors. The Board also reviewed the results of the Group's consultation with the FCA in respect of these changes, to ensure that the changes were within all applicable laws and regulations.

New employee share plans

As part of the Board's review of the Group's employee reward proposition, the Board approved new employee share plans, including (subject to shareholder approval at the AGM) a share incentive plan in the UK designed to reflect the Company's evolution from start-up to listed company and help deliver long-term success to the Company. See page 76 for more details. In reaching its decision, the Board balanced the need to design a plan which resonated with all Circlers (taking into account feedback from employees, including culture survey results) against the costs of the plan and the need to keep share dilution within accepted guidelines.

Instant decision lending platform

Taking into account customer feedback, and with a focus on driving a better borrower experience, improved efficiency (including from an environmental perspective) and maintaining strong customer relationships, the Board approved the implementation of the new global technology platform to enable instant decision making and a simplified loan application process for a number of borrowers. The Board was of the view that this development has considerable long-term benefits for the Company and its stakeholders, including exciting future possibilities to be explored over the coming year.

ESG policy

When approving the Company's formal ESG strategy and high level implementation plans (see page 27 for more detail), the Board took into account the views and increasing focus of the Company's key stakeholders (including its shareholders, investors, borrowers and employees) on ESG issues. The Board will continue to provide oversight and leadership as the Company further develops its ESG programme, and engages with its stakeholders on ESG-related issues, in 2020.

Our stakeholders

The Board believes that maintaining strong stakeholder relationships is essential to the Group's long-term, sustainable success, and is committed to effective engagement with all of the Group's stakeholders.

The table below sets out how the Group engages with its key stakeholders. Not all information is reported directly to the Board and not all engagement takes place directly with the Board. However, the output of this engagement informs business-level decisions, with an overview of developments and relevant feedback being reported to the Board and/or a Committee.

Stakeholder group	Form of engagement	How this engagement influenced Board discussions and decision making
Our shareholders The Company is committed to transparent and open engagement with its shareholders. This enables the Board to clearly communicate its strategy, provide updates on the Group's performance and receive regular feedback. It also gives the Group the opportunity to respond to questions and suggestions.	- Shareholder communications, such as our quarterly trading results, half-year results, Annual Reports, notices of general meetings and other information, provided on our corporate website at corporate.fundingcircle.com/results-and-reports - Our AGM, where the Chairman and the Chairs of the Audit, Remuneration and Risk and Compliance Committees are present to answer questions put to them by shareholders. - Analyst and investor meetings and presentations/investor roadshows. In addition, the Chairman, Chief Executive Officer, Chief Financial Officer and Head of Investor Relations attend individual ad hoc meetings and events with our larger shareholders and prospective shareholders. - The Chairman and other Directors are available to discuss any matter shareholders might wish to raise and to attend meetings with shareholders and analysts, as required. The 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 Head of Investor Relations provides regular reports to the Board on shareholder interactions, and satisfactory dialogue with shareholders is a matter reserved for the Board. - The Chair of the Remuneration Committee engaged with proxy advisers and our key shareholders regarding the Remuneration Policy.	Investors' opinions were taken into account in the shaping of Company strategy and, in particular, feedback received from shareholders and proxy advisers was incorporated into the Remuneration Policy approved at the 2019 AGM.

Corporate governance report continued

Our stakeholders continued

Stakeholder group	Form of engagement	How this engagement influenced Board discussions and decision making
Our people Our people are our business. The Board is committed to creating a culture, by setting the "tone from the top", where Circlers can thrive and share in our mission, values and ambition.	- Regular employee Global and Local Gatherings and our Full and Half Circle events (which are also attended by Non-Executive Directors from time to time) provide an opportunity for Circlers to communicate, share information and interact with senior management. Employees also receive regular updates on the Company's performance, including following the publication of our loans' performance statistics and financials. - Cath Keers, our workforce engagement Non-Executive Director, meets regularly with employee groups in all of our offices, and Cath and an employee representative then provide feedback to the Board on topics of interest and/or concern arising from those meetings. The employee representative in turn updates Circlers on their discussions with the Board and the actions and improvements implemented as a result of their feedback, thereby providing an important feedback loop. See the feedback from an employee representative on page 25. - The Board or its Committees regularly receive reports on people-related matters, including the results of our regular global culture surveys, diversity reports and updates on diversity and inclusion initiatives. - All Circlers have the opportunity to become shareholders through our employee share plans. We provide regular employee briefings, FAQs and the option of individual meetings with our Share Plan team to encourage employee participation.	Feedback received from Circlers as part of our global employee engagement initiative has resulted in the implementation of some clear actions and improvements to address employee concerns, including enhanced employee communication and improvements to our customer experience process. The views of Circlers were also carefully considered as part of the review by the Remuneration Committee and the Board of our reward proposition, including our employee share plans (see more details on this on page 76). The Board and Nomination Committee also monitor the results of our global culture surveys and diversity and inclusion initiatives to ensure they are driving actions to improve life at Funding Circle (for example the creation of a number of diversity and support groups including Women@FC, FC Allies (LGBT) and FC Impact (volunteering and charity work).
Our borrowers SMEs are the growth engine of the economy, and the Board is committed to helping them fulfil their ambitions.	- We monitor customer feedback (including through customer satisfaction surveys) to help us establish customers' views on our products and services, as well as the ways in which they would like us to improve our offering. - We hold regular focus groups with SME borrowers around product changes and new marketing campaigns. In 2019, we held numerous focus groups with borrowers to hear their views on our new Your Business Is Your Baby TV campaign. - The Board reviews strategy and monitors performance in the light of this customer feedback with the aim of meeting the needs of our borrowers more effectively. - Additionally, we regularly use written and video case studies of our borrowers in marketing and internally with Circlers. This helps the team (including the Directors) to stay connected to the Funding Circle mission.	Taking customer feedback into account, the Board has overseen the implementation of key platform innovations in 2019 to further enhance our borrower experience, including our new technology platform and the initiative to open up our marketplace to a panel of specialist SME lenders (see pages 16 and 17 for further detail).

Stakeholder group	Form of engagement	How this engagement influenced Board discussions and decision making
Our investors Providing attractive and stable returns to a wide range of investors in our loans remains a key part of the Board's strategy.	- The Board is committed to maintaining an open dialogue with our diverse investor base, including obtaining its feedback on our products and ensuring we provide effective loan performance reporting. Some examples of the ways in which we engage with our investors in our loans are set out below, and the results of this engagement are fed back to the Directors to inform their strategic review and decision making. - We very actively engage with investors in our loans and loan-backed investment products (including retail and high net worth individuals, institutional investors, asset managers and government-backed investors) as well as the wider investment community such as market commentators, service providers, finance providers, rating agencies and at investor conferences. - We provide and/or facilitate ongoing loan performance reporting to investors so that they may monitor their investments in our loans. - We regularly engage with investors in our loans to facilitate understanding and collaboration on investment criteria, trends and investor regulatory obligations (for example related to data protection, anti-money laundering, outsourcing and regulatory capital). - In those markets with retail investors in our loans, we provide information and support to those investors in an accessible format, including, for instance, through blog posts and email newsletters.	Having considered retail investor feedback in the UK, the Board approved changes to the secondary loan sale mechanics to facilitate a more equitable and timely sale process. The Board has also overseen the diversification of the ways in which investors can invest in our loans by adding asset-backed securitisation and private investment fund programmes for investors that prefer these to whole loans.
Our communities The SMEs that we serve are at the centre of our communities. We also engage with a diverse array of investors as set out under "Our investors" above. In addition, our people are passionate advocates of charitable causes and issues related to social impact and community engagement.	- In 2019, the Board oversaw a process to begin formalising our ESG strategy, including developing our understanding and priorities in respect of engagement with our various stakeholders. - We currently regularly speak and meet with investors regarding their ESG investment criteria as they apply to our loans and loan-backed investment products. See further details of our engagement in relation to ESG matters on page 27. - FC Impact (volunteering and charity work) co-ordinates internal action and initiatives. See details of our engagement on page 28.	Taking into account the results of such stakeholder engagement the Board adopted an ESG strategy, with a centralised approach, including the development of a governance framework and the establishment of central and local working groups (see page 27 for more details).

Corporate governance report continued

Our stakeholders continued

Stakeholder group	Form of engagement	How this engagement influenced Board discussions and decision making
FCA/other regulators/ government The Board is committed to its goal of Funding Circle being a trusted and reputable financial services company, and ensuring the Group complies with all applicable regulation.	- Engagement with local, national, federal and supra-national government agencies, legislators, policy makers and industry groups to provide insight and policy leadership in connection with policy and rulemaking related to issues affecting SME borrowers, investors or lending in the FinTech industry. For example, this year we engaged with the FCA around the new P2P regulations and the changes to our secondary market. In addition, we engaged with the European Commission around plans to introduce pan-European regulation for the online platform lending industry and with US federal and state regulators regarding a number of state law changes impacting commercial lending. - We regularly host events on industry issues, submit position papers and participate in expert hearings and consultations, forums and other policy engagement initiatives. - The Board ensures it is kept apprised of the results of the above engagement as well as the key legal and regulatory changes affecting the business (for example the new P2P regulations) to inform its strategy and decision making.	When considering proposed changes to the secondary loan sale mechanics in the UK, the Board carefully considered the views of the FCA, in addition to investor feedback, to ensure any changes fell within all applicable regulations, as well as being beneficial to investors in our loans.

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; and
- ensuring effective communication with shareholders, including in relation to governance, remuneration and strategy.

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; and
- 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

Responsible for:

- being available to shareholders if they have concerns, which contact through the normal channels of the Chairman, CEO or other Executive Directors has failed to resolve;
- attending meetings with and listening to the views of major shareholders as required;
- providing a sounding board for the Chairman and acting as an intermediary for shareholders when necessary; and
- meeting other Non-Executive Directors without the Chairman present once a year to appraise the Chairman's performance.

Chief Financial Officer

Responsible for:

- all aspects of finance including financial planning, tax, treasury and procurement;
- investor relations;
- working with the CEO to develop and implement the Group's strategic objectives, annual budget and business plan; and
- 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; and
- 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; and
- ensuring compliance with the Board's procedures and with applicable laws and regulations.

Composition, succession and evaluation

As at the date of this report, the Board comprised the Chairman, the Executive Directors and the Non-Executive Directors, including the Senior Independent Director. The current Directors served throughout all of 2019.

The Code recommends that at least half of the Board, excluding the Chairman, should comprise Non-Executive Directors who the Board considers to be independent. 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 continue to be held by those Non-Executive Directors, no further options will be granted to Non-Executive Directors under any of the Company's share plans. The options held by the relevant Non-Executive Directors are all vested. Further details are set out on page 81. The Board does not consider that the historical granting of options to Non-Executive Directors, or the continued vesting of options already granted, 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, as reviewed and confirmed by the Nomination Committee, the Board is satisfied that 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. The Nomination Committee has reviewed the other directorships and commitments held by the Non-Executive Directors and is satisfied that each of them continues to be able to devote sufficient time to discharge their duties effectively as Directors of the Company. During the year, any additional external appointments requiring a significant time commitment have been approved by the Board. See further details in the Nomination Committee Report on page 65.

The Board considers all Directors to be effective and committed to their roles. All members of the Board (other than Sean Glithero, who, as announced, will be stepping down as Chief Financial Officer during 2020) will be offering themselves for re-election at the Company's AGM in May 2020, in compliance with provision 18 of the Code.

Board induction and training

All new Directors receive a comprehensive induction plan on joining the Board, and this was reviewed and enhanced by the Nomination Committee in 2019.

This includes the following:

- overview of Funding Circle, including its structure, strategy and key stakeholders, through meetings with members of the Global Leadership Team;
- overview by the Chairman on the Board structure and procedures, Committees and roles and responsibilities and an overview of the Board calendar, key dates and Board documentation and corporate policies by the Company Secretary;
- overview of key stakeholders, including borrowers, investors, our people and shareholders;
- training on public company and Directors' duties, in addition to our standard new joiner training (which covers, for example, whistleblowing, information security and anti-bribery and corruption); and
- meeting with internal and external auditors, key advisers and key stakeholders (e.g. major shareholders) as appropriate.

The Board is committed to the training and development of Directors and employees and the Nomination Committee also considered, with the assistance of the Company Secretary, any development needs or training requirements of the Directors. The Company Secretary is responsible for helping the Chairman regularly review and organise appropriate training for the Directors to ensure they are fully comfortable with their role within the Board and to enable them to contribute to the operation of the Board and the long-term success of the Company in the fullest manner possible. All Directors have the opportunity to visit the Company's offices and operations, and have continuous access to the knowledge and expertise of senior management. In addition, the Board was given presentations during the year by the Company's advisers, brokers and senior management, and updated on key legislative and regulatory changes by the Company Secretary.

Board effectiveness

The review of Board effectiveness for 2019 was run internally by way of a self-assessment questionnaire, circulated to the Board. It was led by the Chairman and managed by the Company Secretarial team. The questionnaire required a combination of qualitative and quantitative responses to enhance the evaluation and included questions regarding the effectiveness of the Board's internal relationships, the Board's communication with the management team, the composition of the Board and the effectiveness of the Chairman's role. The Company Secretarial team analysed and summarised the responses, which were then considered and discussed in detail by the Board. The results of the review concluded that the Board's role and performance are effective and had matured during the course of 2019, whilst identifying areas where further improvements could be made (for example more focused executive summaries to be included in Board papers and the provision of additional training to Directors to ensure they understand the detail behind key business developments, including the Group's new products).

The Board's Audit, Risk and Compliance, Remuneration and Nomination Committees also conducted reviews of their own effectiveness during 2019. Each Committee Chair agreed a tailored questionnaire which was circulated to Committee members. The results were analysed by the Company Secretarial team and discussed by the Committees and actions were agreed for the coming year. The results of the reviews concluded that the Committees are working well and that there are no significant concerns among the Directors about their effectiveness. More information on each Committee's effectiveness review can be found in their reports.

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. Details of this process and the focus of the review and of the Audit Committee's role, activities and relationship with the external auditors are on pages 67 to 71 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 is on page 89 in the Statement of Directors' Responsibilities. The Company's external auditors explain their responsibilities on page 95.

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, borrowers and investors in our loans. 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 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 our borrowers. This includes ensuring that an appropriate system of risk governance is in place throughout the Group.

The Board oversees the Group's risk management and internal control system and is responsible for reviewing its effectiveness. During the year, the Board carried out a robust assessment of the principal risks and uncertainties facing the Group, which are described in more detail on pages 42 to 47 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 and Audit Committees. The Risk and Compliance Committee also monitors compliance with the ERMF. More information on the ERMF is provided on page 41.

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 Risk and Compliance and Audit Committees 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 (although the Group plans to transition to a co-sourced model during the course of 2020). The Internal Audit function provides independent and objective assessment on the robustness of the ERMF and the appropriateness and effectiveness of internal controls to the Risk and Compliance and Audit Committees and the Board. More information on the Internal Audit function is set out in the Audit Committee Report on page 70.

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. Details about this can be found in the Directors' Remuneration Report starting on page 75.

Report of the Nomination Committee

Members and attendance

Member	Meetings	Attendance
Andrew Learoyd (Chair)	1/1	100%
Bob Steel (Senior Independent Director)	1/1	100%
Cath Keers (Independent Non-Executive Director)	1/1	100%

“The Company is committed to creating an inclusive culture, free from discrimination of any kind, and this extends to Board appointments.

Dear shareholders

On behalf of the Board, I am pleased to present our Nomination Committee Report for the year ended 31 December 2019.

2019 highlights

- Oversaw the nomination of Oliver White to succeed Sean Glithero as Chief Financial Officer.
- Developed orderly succession plans for both the Board and the Global Leadership Team, which were successfully implemented in respect of the appointment of Oliver White as Chief Financial Officer and certain roles within the Global Leadership Team.
- Approved the Group's diversity and inclusion initiatives for 2019 (which are further detailed on page 24), as well as requesting regular and detailed reporting to the Committee to enable it to effectively monitor the impact of these initiatives.
- Developed an enhanced induction plan for new Board members.

2020 priorities

- Renewing the Board and senior management succession plans especially in light of recent changes; the Committee has engaged a leadership advisory firm to assist with this process.
- Considering whether the Board and senior management have the appropriate combination of skills, experience, diversity and knowledge, especially in light of the Group's evolving business, and how this should best be addressed.
- Promoting diversity – the Committee recognises the importance of diversity and intends to continue to take an active role in setting and meeting diversity objectives and strategies for the Group as a whole (as well as for the Board and the Global Leadership Team) and in monitoring the impact of new and existing diversity initiatives.

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 53 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/investors/governance.

Operating rhythm of the Committee

The Committee met once during 2019, when the Committee agreed its role and key areas of focus for 2019. The Committee also met in January 2020, when it reviewed the results of the Board and Committee evaluation process and discussed (among other things) the appointment of Oliver White to succeed Sean Glithero, the composition of the Board and succession planning.

Board induction and training

All new Directors receive a comprehensive induction plan on joining the Board, and this was further developed during 2019. Further details of the induction plan are set out on page 62 of the Corporate Governance Report.

The Committee is also mindful of the need to ensure that the Directors have the skills, knowledge and experience necessary to meet the evolving needs of the business, and therefore ensures, with assistance from the Company Secretary, that the Board completes regular training on key and developing areas.

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 Committee is pleased with the improvements in gender diversity made over the last few years, both at a Board level through the appointment of Cath Keers and Geeta Gopalan in 2018 and at a Global Leadership Team level through the appointment of Lisa Jacobs as UK Managing Director in 2019, although it recognises that there is more work to do.

The Committee is committed to enhancing the level of diversity at all levels of the business, including at a Global Leadership Team and Board level, and believes in recruiting the right candidates based on their skills, knowledge and experience, while always having due regard for the benefits of diversity (including gender diversity).

A breakdown by gender of the Board and the Global Leadership Team is provided on page 24. We have also published the UK's gender pay gap report on our UK website which 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 24. These initiatives were reviewed and approved by the Committee in 2019, together with specific reporting requirements to ensure the Committee is able to monitor their impact.

Board appointments and composition

No additional Board appointments were made during 2019.

As previously announced, Sean Glithero informed the Board, in early 2020, of his intention to step down from his role as Chief Financial Officer and from the Board, and he will be succeeded by Oliver White later this year. In line with our succession plan, it was agreed that the position should be filled by an external hire, and Egon Zehnder was engaged in the search for suitable candidates. Egon Zehnder does not have any other connection with the Company or individual Directors.

Following the completion of a formal and rigorous selection process, which included Oliver meeting with members of the Global Leadership Team and a number of the Non-Executive Directors (including two members of the Committee), the Committee recommended that Oliver be appointed to the Board on joining the Company. Oliver will receive a comprehensive induction, in line with the induction plan approved by the Committee, to ensure he is fully prepared to take on the role.

The Committee also assessed the Board's current balance of skills, knowledge and diversity and how this aligns with the Company's strategic priorities and concluded that the mix of skills, experience and knowledge was appropriate to enable the Board to effectively discharge its responsibilities and support the Company's future development.

Commitment and interests

The Committee considered the commitment of all Directors both in terms of dedication to the role and their time availability including a review of the Directors' current directorships. It concluded that all Directors are fully dedicated and commit an appropriate amount of time to their roles.

The Committee also monitors additional external appointments of Directors from both an availability and conflict of interest perspective, which are not undertaken without the prior approval of the Board. For example, this assessment was carried out in respect of the appointment of Cath Keers as a Non-Executive Director of The British United Provident Association Limited (parent company of the Bupa group of companies) in November 2019, and subsequently approved by the Board on the basis that it would not impede on her ability to perform her roles on the Board and relevant Committees of the Company.

Succession planning

The Committee completed an initial succession plan, to cover both interim and longer-term solutions, for both the Board and the Global Leadership Team in 2019. This was successfully implemented in relation to the appointment of Oliver White as Chief Financial Officer to succeed Sean Glithero, as well as in relation to certain other members of the Global Leadership Team. This will continue to be a focus in 2020, with the Committee looking to update and enhance the existing succession plan, including to reflect these recent changes. The Committee has also engaged a specialist consultant to assist with its long-term succession planning.

Committee effectiveness

As introduced on page 63, the Committee undertook an effectiveness review during 2019 whereby each Committee member completed a tailored questionnaire. The question set covered topics such as the composition of the Committee, the quality and timeliness of information provided and succession plans for the Board and senior management. The feedback from the review was positive and was discussed in detail at the Committee meeting in January 2020. The review process was also instrumental in directing the Committee's focus for 2020 (which is detailed above).

Re-election

The position of each Board member was closely reviewed during the year as part of the consideration of succession arrangements and the Board and Committee evaluation processes. While the Committee will continue to assess this in 2020, 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, recommended to the Board that each Director stand for election at the forthcoming AGM (with the exception of Sean Glithero, who will be stepping down from his role as Chief Financial Officer in 2020).

Andrew Learoyd
Chair of the Nomination Committee
12 March 2020

Report of the Audit Committee

Members and attendance

Member	Meetings	Attendance
Geeta Gopalan (Chair)	3/3	100%
Eric Daniels (Independent Non-Executive Director)	3/3	100%
Ed Wray (Independent Non-Executive Director)	3/3	100%

“

The Board has delegated to the Committee responsibility for overseeing the financial and corporate reporting and internal financial controls of the Group.

Dear shareholders

On behalf of the Board, I am pleased to present our Audit Committee Report for the year ended 31 December 2019. This was the first full year of the Committee's deliberations and the focus was on establishing the appropriate operating rhythm to enable oversight of a maturing control environment and a growing business with more complex products and services on offer.

2019 highlights

- Reviewed the effectiveness of the Group's internal controls and the Internal Audit function, together with the internal audit plan for 2020, suggesting changes to priorities, processes and reporting.
- Assessed the Group's significant audit and accounting judgements, particularly with respect to goodwill impairment and the appropriate valuation of the Group's new funding products (see page 68 for more detail).
- Reviewed and approved the Group's 2019 Annual Report and Accounts and preliminary announcement, including the Viability Statement and going concern assessment.
- Reviewed and approved the external audit plan and fees for the 2019 financial year and carried out a formal evaluation to assess the independence, objectivity and effectiveness of the external auditors.
- Reviewed and approved the Group's non-audit services fees and policy.
- Considered and approved the appointment of Nick Morrison as the Group's new external audit partner and recommended the reappointment of the external auditors.
- Approved the Group building an in-house Internal Audit team during 2020.
- Reviewed the adequacy and security of the Group's whistleblowing arrangements and received whistleblowing updates.

2020 priorities

- Continue to review of the Group's internal controls over financial reporting, including to ensure these are developed to reflect the Group's growing and evolving business, including new funding products.
- Continue the assessment of accounting judgements in relation to Funding Circle sponsored ABS bond products.
- Overseeing the Group's transition to a co-sourced internal audit model.

Committee composition, skills and experience

We confirm that we have complied with the Code provision that the Committee comprises Independent Non-Executive Directors and between us we 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 pages 50 to 51. The Board is satisfied that the Committee meets the Code provision to have recent and relevant financial experience.

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, 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.

The key responsibilities of the Committee are summarised on page 53 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/investors/governance.

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

Operating rhythm of the Committee

The Committee met three times during 2019. All members of the Committee attended all meetings, together with (by invitation) representatives of the external and internal auditors, the CFO and, where it was deemed appropriate, other members of the senior management team. I am satisfied that the Committee received information on a timely basis and meetings were scheduled adequately to allow members to have an informed debate.

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

The external and internal auditors attended all Committee meetings, and the Committee also met with them separately without management present. In addition, I maintain an open and regular dialogue with the Company's external and internal audit partners, as well as the CFO.

A summary of the Committee's 2019 highlights and 2020 priorities is set out on page 66, with further detail on certain key matters which warrant further consideration set out below, including the key considerations and conclusions of the Committee.

Significant issues considered in relation to the financial statements

The Committee assessed the quality and appropriateness of, 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 2019 are set out below.

Reporting issue	Audit Committee action
Principal risks and viability 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 the Group's principal risks as set out on pages 42 to 47; - assessing and reviewing the guardrails established by the Risk and Compliance Committee to track the Group's capital, liquidity and exposures following the evolution of its funding products; - reviewing the Group's medium-term plan, its cash and liquidity; and - reviewing the outcomes of stress testing after applying severe but plausible scenarios aligned to the principal risks. Having challenged and considered the outcomes of management's assessment the Committee concluded to recommend the Viability Statement to the Board for approval.

Report of the Audit Committee continued

Significant issues considered in relation to the financial statements continued

Reporting issue	Audit Committee action
Goodwill and carrying value of investments in the Parent Company 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 (referred to as FCCE and FCUSA respectively in the financial statements goodwill note). Additionally the Group considered the carrying values of the investments in subsidiaries held in the Parent Company. There remained sufficient headroom in the Group accounts in respect of the US goodwill, and in the Parent Company accounts in respect of both the UK and US investments. However, the European business, which operates in Germany and the Netherlands, has seen a deterioration in its performance and trading prospects, such that the underlying projected cash flows of the cash-generating unit were insufficient to cover the carrying value of goodwill or Parent Company investments. Accordingly, the Group has taken an impairment charge of £34.3 million consisting of goodwill of £29.0 million and other tangible and intangible assets of £5.3 million. Additionally the Parent Company investment of £77.5 million has been fully written down.	As members of the Board, all Committee members received updates on the financial performance of the Group and its medium-term plan as part of the 2020 budget process. The Committee also reviewed papers from management during the year which set out the key assumptions underpinning the value-in-use assessment and the level of headroom and sensitivity to those assumptions, the financial projections of which were based on the medium-term plan. The Group's external auditors provided their view of the assessment to the Committee. After due challenge and discussion, the Committee concluded that the assets associated with the businesses in Germany and the Netherlands were unsupportable and should be impaired. However, the Committee was comfortable that there remained sufficient levels of headroom over the carrying values of the assets associated with the other cash-generating units and that the remaining investments in the Parent Company accounts were supportable.
Exceptional items The Group has a defined accounting policy for the treatment of non-recurring and material items as exceptional. The impairment of assets totalling £34.3 million has been disclosed as an exceptional item. In 2018, IPO costs of £5.9 million in the income statement were treated as exceptional. The Group also incurred restructuring costs during the year of c.£2.0 million. However, given the quantum, these have not been disclosed as exceptional.	The Committee received a paper from management setting out the analysis of the exceptional items, linked to the goodwill impairment above. It also considered the restructuring costs incurred in the year. The Committee received the views of the external auditors on the items that management had included within these costs. The Committee considered the appropriateness of presenting the impairment separately from other costs together with the non-inclusion of restructuring costs. It noted that the disclosure as exceptional was consistent with the Group's accounting policy, and concluded that the amounts and this presentation were appropriate.
Valuation of financial instruments Following the introduction of the new funding products during 2019, the Group holds significant levels of financial instruments at fair value on its balance sheet. These instruments are valued using valuation estimation techniques including discounting cash flow analysis and valuation models.	The Committee received and reviewed a paper from management that included the assumptions and methodologies used to value the financial instruments together with the level of sensitivity to those assumptions. The Committee also considered the views of the external auditors on the valuation approach and the assumptions. The Committee considered the disclosures within the Annual Report and after due challenge concluded that the valuations were reasonable and the disclosures were appropriate.

Reporting issue	Audit Committee action
Loan repurchase provisions (also known as expected credit losses) With certain institutional investors, the Group has entered into agreements to assume the credit risk on loan investments funded by institutional investors, as detailed in note 16 of the financial statements on pages 123 and 124, in return for a fee premium. The Group is therefore required to make its best estimate for the expected defaults on these loan investments and therefore the level of loan repurchases it must make. This requires estimation on the expected level of defaults using both historical trends and forward-looking information.	The Committee received and reviewed information from management during the year on the levels of loan repurchases and the associated repurchase provisions also referred to as expected credit loss provisions. The Committee also received views of the external auditors. Taking each of these into account, the Committee concluded that the approach and the quantum of provision and the associated disclosures for loan repurchase costs were reasonable.
Alternative performance measures ("APMs") The Group uses APMs in its reporting of segment adjusted EBITDA and adjusted EBITDA for the Group. These measures are defined within the segmental information note on page 115. 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. Additionally, they are measures that external investors and analysts use to assess the Group's underlying 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. The Committee also considered the other measures used by the Group, including loans under management and originations, and agreed that these were significant drivers of fees earned by the Group and, in turn, its financial performance and as such required sufficient disclosure to explain the revenue performance. The Group also obtained the view of the use of these APMs from the external auditors. The Committee considered the appropriateness of these APMs in providing meaningful information about the underlying performance of the business and concluded that these APMs should continue to be used in the Group's external reporting, although noting that these should not be given undue prominence. The Committee reviewed the Annual Report as a whole and concluded that the use of these measures was not excessive relative to statutory measures and that appropriate reconciliation to statutory measures was provided.
Fair, balanced and understandable reporting The Board is required to report as to whether the contents of the 2019 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 the Annual Report. 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 that the information contained within the Annual Report is fair, balanced and understandable. The Committee also discussed the contents of the Annual Report with the external auditors. Having considered all of the available information including previously published information about the business and press releases through the year, it has concluded that, in its judgement, the 2019 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.

The Committee is pleased with the improvements made to the Group's internal financial controls over the year, but this will remain an area of focus to ensure controls are developed and improved to reflect the Group's growing and evolving business, including the recently launched new funding products.

Internal audit

The Group uses KPMG, which is accountable to the Committee, as its outsourced Internal Audit function. Its work focuses on areas of key business risk, significant processes and current areas of concern to define its audit plan.

Areas reviewed by KPMG during 2019 included information and cyber security, investor and borrower communications, collections and recoveries, compliance with regulatory frameworks (including client money requirements) and risk oversight.

The internal audit plan for 2020 was approved by the Audit Committee in November 2019 and covers a broad range of processes and controls across the business including:

- business continuity and system resilience;
- new investor and borrower onboarding processes, 'know your customer' and anti-money laundering and sanctions compliance;
- credit risk underwriting and monitoring processes (including on the new global technology platform);
- investor servicing; and
- capital and liquidity planning, and the securitisation process.

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

The Audit Committee has reviewed the effectiveness of the Internal Audit function throughout the year, including as part of the Committee effectiveness review. Following the completion of this review and a detailed discussion, it concluded that the function had been effective during 2019, although improvements were requested to Internal Audit reporting in particular.

The Committee also considered the appropriateness of continuing with the current fully outsourced model given the change in size and complexity of the business in recent years. It has concluded that it is an appropriate time to build in-house capabilities and plans to transition to a co-source model during the course of 2020.

Whistleblowing

The Board adopted a revised whistleblowing policy in January 2019, incorporating the Committee's recommendations. The Group 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 arrangements and receives whistleblowing updates at each meeting (which include updates on steps taken to ensure employees' awareness of the whistleblowing policy), 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, 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 were first appointed as the external auditors of the Company in 2015. Having worked with the Company for four years, Brian Henderson (the previous lead audit partner) stepped down in 2019, and Nick Morrison was appointed as the Company's new lead audit partner. Prior to approving Nick's appointment, the Committee carried out a thorough evaluation of Nick's skills and experience to ensure he was the most suitable candidate for the role and subsequently ensured a smooth handover process.

The Committee undertook a formal assessment of PwC's effectiveness during 2019 by following the process below:

Tailored questionnaire prepared covering

- External audit partner time commitment
- Quality of the team
- Quality of the service provided and audit presentations
- Accounting, technical and governance insight
- Independence and professional scepticism
- Quality of communication and interaction

Questionnaire provided to

- Committee members
- CFO

Results of the questionnaire

The results of the evaluation were collated by the Company Secretarial team and presented to the Committee.

Assessment

The Committee considered the results of the evaluation, together with a detailed review of the quality of PwC's audit plan and their assessment of management's judgements during the year. Following detailed discussion, together with some suggestions for improvement (which have been discussed with PwC), the Committee concluded that the audit process was effective and that PwC remained independent and objective.

The Committee also considered the findings of the FRC's Audit Quality Review ("AQR") team into the conduct of PwC audits generally. The AQR team selected to review the audit of the Group's 2018 Annual Report and Accounts as part of its annual inspection of audit firms. I received a copy of the findings of the AQR team in my capacity as Chair of the Committee, and have discussed them with PwC. Whilst there were no significant findings, there were some areas of PwC's audit procedures identified as requiring improvement and we are satisfied with the responses implemented by PwC in the audit of the Group's 2019 Annual Report and Accounts. None of the findings relate to the Group's accounting policies.

Following the above evaluations, the Committee has recommended to the Board that PwC are reappointed as the Company's external auditors. A resolution recommending the appointment of PwC as external auditors of the Company will be put to shareholders at the Company's AGM in May 2020.

In accordance with the Competition and Markets Authority order 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 Committee approval for non-audit services. This policy was amended in 2019 to prohibit PwC from providing tax compliance work in the US, in line with PwC's updated internal policies, and giving me, as Chair of the Committee, delegated authority from the Committee to approve individual non-audit services items of up to £50,000 per service.

All fees paid to PwC for non-audit services have been approved by the Committee or the Chair (in accordance with the non-audit services policy), and a summary of all non-audit services is provided at Committee meetings.

During the year ended 31 December 2019, PwC were engaged to provide non-audit services relating to the following:

Description	£m
Total assurance-related services	0.3

The Audit Committee concluded that it was in the best interests of the Group to purchase these services from PwC on the basis that they were able to provide them more efficiently than an alternative provider (or, in some cases, they were required to be performed by the external auditors).

PwC are prohibited from providing certain non-audit services including but not limited to internal audit work, valuations work and tax-related work. Further details on audit and non-audit fees are shown in note 4 to the financial statements.

PwC have confirmed to the Committee that it remained independent during the year.

Committee effectiveness

As introduced on page 63, the Committee undertook an effectiveness review during 2019 whereby each Committee member completed a tailored questionnaire. The question set covered topics such as the composition of the Committee, the quality and timeliness of information provided, the oversight of the Committee and the ongoing engagement with the internal and external auditors. The output from this review was positive and, following an open and productive discussion, the Committee agreed a number of actions to be implemented during 2020, including continued focus by the Committee, in conjunction with the Risk and Compliance Committee, on the Group's new funding products and improvements to be made to internal audit reporting to provide a more qualitative and thematic approach.

Geeta Gopalan
Chair of the Audit Committee
12 March 2020

Report of the Risk and Compliance Committee

Members and attendance

Member	Meetings	Attendance
Eric Daniels (Chair)	3/3	100%
Geeta Gopalan (Independent Non-Executive Director)	3/3	100%
Hendrik Nelis (Non-Executive Director)	3/3	100%

"The main purpose of the Committee is to review and make recommendations to the Board in connection with the Group's risk strategy.

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 2019.

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 47 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 funding and liquidity risk with the development of a specific risk management framework to address the additional risks resulting from the evolution of the Group's funding strategy. The Committee's highlights from 2019 are set out below.

The Committee members have a wealth of risk management experience, including strong representation in financial services. Further details of their experience are set out on pages 50 and 51 of this report.

2019 highlights

- Recognised funding and liquidity risk as an additional principal risk and developed and implemented a specific funding and liquidity risk management framework.
- Further enhanced the Company's risk governance framework by (among other things) updating the Group's qualitative and quantitative risk appetite statements and implementing a new escalation process and approval protocol for changes to credit parameters.
- Initiated improved risk management practices, including the introduction of (i) a governance, risk and compliance tool ("GRC tool") to perform risk and controls self-assessments ("RCSA"), register risk incidents and monitor remediation actions and (ii) an improved risk assessment methodology to include more robust risk ratings and an improved approach to the management of, and reporting on, low impact and high frequency events.
- Oversaw the evolution of the Group's stress test methodology to implement proposals made by the external consultancy appointed on the recommendation of the Committee to validate the Company's approach.
- Reviewed and approved the Group's new credit risk decision models, and oversaw the tightening of credit underwriting parameters for the riskier borrower segments to improve credit performance and protect investors' returns.

2020 priorities

- Continue to review of the Group's risk strategy and risk management capabilities, including revising the ERMF and the RCSA process (continuing with the implementation of the GRC tool) as necessary to reflect the Company's growing and evolving business, as well as any emerging risks.
- Continue to monitor the economic and political environment, including the exit of the UK from the European Union, and contingency planning to respond and mitigate the impact of any adverse macroeconomic conditions.

- Continue careful monitoring of the Group's funding and liquidity risk, including to ensure diversification of funding sources and to maintain a prudent level of balance sheet liquidity.
- Review of the framework of controls, guardrails, monitoring and testing for the next phase of implementation of Funding Circle's global technology platform.
- A detailed review of the Group's people risk (excluding the Board and Global Leadership Team, which fall within the remit of the Nomination Committee).
- Continue overview of the Group's credit risk decision models, following the introduction of the eighth generation model in the United Kingdom and the fourth generation model in the United States.

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 (in light of the Committee's assessment of the emerging and current principal risks to the Group) and its attitude to and appetite for risk and to monitor and review the Group's compliance with the ERMF. In addition, the Board has delegated responsibility to the Committee 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 53 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/investors/governance.

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

Operating rhythm of the Committee

The Committee met three times during 2019. All members of the Committee attended all meetings, together with (by invitation) the CRO, CEO, CFO, Chairman of the Board, 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 and debate.

As FCL is authorised and regulated by the FCA, it has its own Risk and Compliance and Audit Committees, 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.

In addition, I maintain an open and regular dialogue with the CRO, and am satisfied that matters were escalated to the Committee or me, as necessary, in line with the escalation protocols approved by the Committee earlier in the year.

During 2019, the Committee considered a wide range of risks facing the Group, both existing and emerging, across all key areas of risk management. A summary of the Committee's 2019 highlights and 2020 priorities is set out on page 72, with further detail on certain key risks and matters which warrant further consideration set out below, including the key considerations and conclusions of the Committee.

Funding and liquidity risk

The Company's funding strategy has evolved over the course of 2019, resulting in increasing diversification of funding sources including Funding Circle sponsored ABS bond products. Accordingly, funding and liquidity risk has been a focus of the Committee during 2019 to ensure the downside risks of this diversified funding, and the sponsored ABS products in particular, are carefully managed, and that the Company maintains a prudent level of balance sheet liquidity.

Accordingly, the Committee has been instrumental in the recognition of funding and liquidity risk as an additional principal risk in the ERMF and the development of a specific funding and liquidity risk management framework, together with the maintenance of an effective Treasury function. This has resulted in the implementation of guardrails, controls and monitoring and escalation protocols, which are carefully reviewed and monitored by the Committee.

In addition, the Committee continues to closely monitor levels and sources of funding in light of the lower retail and institutional investor demand observed, particularly in the UK in the context of Brexit uncertainty.

Funding and liquidity risk will continue to be closely monitored by the Committee in 2020.

Credit risk management

The Committee monitored credit risk performance against the Group's risk appetite metrics and policies, together with the results of the stress tests carried out each year. Given the increasingly uncertain macroeconomic conditions, the Committee oversaw the tightening of certain credit underwriting parameters in 2019, together with the strengthening of internal collections and recoveries capabilities, including new predictive models, automated workflows and specialist vendor relationships. This will remain an area of focus for the Committee in 2020.

Regulatory, reputation and conduct risk

The Committee has been kept apprised of the new regulatory environment, including the Senior Managers and Certification Regime and the new P2P rules in the UK, a number of state law changes in the US impacting commercial lending and the new licensing regime in Germany, and is comfortable that the Group has taken all appropriate steps to ensure compliance with the new regulatory requirements.

The Committee has also been regularly updated on the media focus in the UK on Funding Circle's secondary market (as well as the industry generally) and the changes made to improve the retail investor experience and is comfortable with the Company's approach in this regard.

Report of the Risk and Compliance Committee continued

Economic environment

The Global CRO provided the Committee with reports on early warning signals of a possible recession and potential implications to the credit portfolio performance in each geography. The Committee also received detailed stress testing reports of the Group's loan portfolios, including an independently validated report on the UK stress testing model. Further reports will be provided to the Committee in 2020.

Other matters

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

- review of the ERMF and relevant Group policies;
- review of results of the RCSA and ongoing risk reports including risk appetite;
- review of internal risk controls (further details of which are covered on page 63 of 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 Management and Compliance functions and is satisfied that they are adequately resourced and sufficiently independent with appropriate authority and standing within the Group.

Committee effectiveness

As introduced on page 63, the Committee undertook an effectiveness review during 2019 whereby all Committee members completed a tailored questionnaire. The question set covered topics such as the composition of the Committee, the quality and timeliness of information provided and the Committee's oversight of the Company's attitude to and appetite for risk and risk strategy. Following a productive discussion, the Committee agreed a number of actions to be implemented, including that the Committee include people risk as an additional focus for 2020 and improvements to the escalation protocols under the ERMF.

Eric Daniels
Chair of the Risk and Compliance Committee
12 March 2020

Members and attendance

Member	Meetings	Attendance
Cath Keers (Chair)	8/8	100%
Andrew Learoyd (Chairman)	8/8	100%
Ed Wray (Independent Non-Executive Director)	8/8	100%

"The Committee's primary role is to determine the remuneration of the Directors and Global Leadership Team of the Group and to determine the Remuneration Policy for the Executive Directors.

Dear shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019. In addition to my annual statement as Chair of the Remuneration Committee, this report contains:

- the Annual Report on Remuneration, which sets out payments made to the Directors for the year ended 31 December 2019 and how the Policy is intended to be implemented in 2020; and
- a summary of the Directors' Remuneration Policy which was approved by shareholders at the 2019 AGM.

The Annual Report on Remuneration is subject to an advisory shareholder vote at the 2020 AGM.

2019 highlights

- Established the appropriate operating rhythm and support requirements to effectively run the Committee through its first year as a listed company Remuneration Committee.
- Developed the Remuneration Policy for Executive Directors and engaged with shareholders to achieve a vote of 99.7% in favour of the report and policy.
- Oversaw the development of a new approach to reward for members of the Global Leadership Team and all other Circlers.

2020 priorities

- Conduct a comprehensive review of the Remuneration Policy.
- Introduce an all-employee Share Incentive Plan ("SIP") to align all Circlers more closely with shareholder interests.

Aligning remuneration with Funding Circle's culture and strategy

Funding Circle is a founder-led business. From inception, the remuneration philosophy has been to support share ownership across the business. This has been achieved through equity incentives to encourage all Circlers to behave as owners – taking decisions that balance long-term value creation with achieving shorter-term strategic priorities. The current Remuneration Policy was developed based on this fundamental principle of share ownership, in order to continue to foster stewardship and fully align Executive Directors with shareholders – which the Committee continues to fully support.

In 2020 we have launched our Circler Promise – our employee value proposition. As part of this we have an all-Circler new approach to reward (other than the Executive Directors). This approach reflects the share price of the Company to date, as well as taking into account the feedback received from Circlers as part of engagement with them during 2019.

Aligning remuneration with Funding Circle's culture and strategy continued

In this context, along with the new CFO appointment, the Committee intends to do a comprehensive review of the existing Remuneration Policy in 2020. This is to ensure that the Remuneration Policy:

- appropriately incentivises the Executive Directors to deliver the Company's strategic goals and create long-term shareholder value; and
- takes into account the Code, including adherence with the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture as set out in Provision 40 of the Code.

The Committee will consider all stakeholders when conducting the review, including canvassing the opinion of our largest shareholders as well as considering the remuneration packages of Circlers more widely.

Post-employment shareholding guidelines

The Committee introduced post-employment shareholding guidelines effective from 1 January 2020. Executive Directors who step down from the Board following 1 January 2020 are required to retain a holding in "guideline shares" equal to:

- 200% of salary (or their actual shareholding at the point of departure if lower) for the first 12 months following departure from the Board; and
- 100% of salary (or their actual shareholding at the point of departure if lower) for the subsequent 12 months.

"Guideline shares" do not include shares which the Executive Director held at IPO, purchased in the market directly, or acquired pursuant to the exercise of pre-IPO awards.

Board changes

As announced in January 2020, Oliver White will succeed Sean Glithero as CFO during 2020. Sean Glithero will not receive any payments linked to the cessation of his employment and all unvested long-term incentives will lapse on his termination date. Details relating to Oliver White's remuneration arrangements will be disclosed in next year's Directors' Remuneration Report. The arrangements were considered in line with the current Remuneration and Recruitment Policies.

Remuneration arrangements for 2020

Executive Directors and Non-Executive Directors will not receive a salary/fee increase in 2020. Consideration was given to the appropriateness of an increase and the Committee concluded that no increases should be awarded as the intention is to engage with shareholders during 2020 on the Remuneration Policy.

As in 2019, Samir Desai has decided not to take up his LTIP award for 2020. As Sean Glithero will stand down from his role as CFO during 2020, he will not receive a 2020 LTIP award. Oliver White will receive a LTIP award following his commencement of employment. Details of quantum will be disclosed at the time of grant and details of performance measures and quantum (which are in line with the current Remuneration Policy) will be disclosed in next year's Directors' Remuneration Report.

Remuneration arrangements for Circlers

All Circlers contribute to the achievement of the Group's long-term success and the Board believes that extending share ownership throughout the Group fosters stewardship and enhances loyalty and engagement.

For 2020, the key elements to the remuneration arrangements are:

- The Global Leadership Team, the leadership team and other management roles participate in a discretionary share-based LTIP.
- From 2020, the Global Leadership Team, the leadership team, and other management roles and senior technical specialists will participate in an annual bonus plan. Whilst it remains an important principle that all Circlers are focused on the long-term sustainable growth of the Company, introducing a short-term annual bonus enables us to incentivise behaviours that will allow us to take steps to achieving those goals. It is also common practice in the industry to offer short-term incentives and, in doing so, it enhances our proposition to the talent market.
- Subject to shareholder approval at the AGM, all Circlers will participate in an equity grant that will operate in the UK as a Share Incentive Plan ("SIP"). Annual grants up to the current Free Share Award limit of £3,600 will be made to Circlers.
- Equity to Circlers, including the existing Global Leadership Team (other than the Executive Directors), is subject to continued employment for the two years following the grant date but is not otherwise normally subject to performance conditions.

CEO v employee pay ratio

All main market UK listed companies with more than 250 employees are required to publish the pay ratio of the total remuneration of the CEO compared to other UK employees. Our median ratio was 3.9:1 for 2019. Further information can be found on page 85.

Committee composition, skills and experience

Ed Wray and Andrew Learoyd remain in their positions as the other members of the Committee. We confirm that we have complied with the Code provision that the Committee comprises three independent Non-Executive Directors.

Role of the Committee

The Committee's primary role is to determine the remuneration of the Directors and Global Leadership Team 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 54 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 corporate website.

Operating rhythm of the Committee

The Committee met eight times during 2019.

All members of the Committee attended all meetings and, by invitation, were joined by the Chief People Officer 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 and debate.

Committee effectiveness

As noted on page 63, the Committee undertook an effectiveness review during 2019, whereby each Committee member completed a tailored questionnaire which included a consideration of the remuneration support provided to the Committee. It was agreed that the support provided to the Committee improved in the second half of the year and is expected to continue to improve with additional internal remuneration resource and the appointment of Deloitte as the new external Remuneration Committee consultants.

Cath Keers
Chair of the Remuneration Committee
12 March 2020

Shareholder vote on Annual Report on Remuneration and Remuneration Policy

The Committee's resolutions at the Company's 2019 AGM in respect of the Annual Report on Remuneration and the Remuneration Policy received the following votes from shareholders:

2019 AGM	Annual Report on Remuneration		Remuneration Policy	
Votes cast in favour	256,867,652	99.6%	256,886,226	99.6%
Votes cast against	783,726	0.3%	769,531	0.3%
Votes withheld	322,233	0.1%	317,854	0.1%
Total votes cast (including withheld)	257,973,611	100%	257,973,611	100%

The Remuneration Policy applies to the roles of Chairman, Executive Directors and Non-Executive Directors and was approved by a binding vote at the 2019 AGM. A summary of the Remuneration Policy is included below. Our full Remuneration Policy can be found in the 2018 Annual Report and Accounts available on our website at: https://corporate.fundingcircle.com/results-and-reports.

Executive Directors' remuneration

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
Salary	Reviewed annually in March. Salaries take account of the external market and the overall employee context.	Supports the attraction and retention of the best talent.	No prescribed maximum salary level or salary increases. Account will be taken of increases applied to employees as a whole when determining salary increases. The 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 eligible for the following benefits: - life assurance; and - private medical insurance. 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. The CEO has opted not to take up his right to the pension contribution.	To provide retirement benefits for Executives.	Maximum contribution in line with contribution to other employees in the Group, which is currently 3% of salary increasing to 5% of salary from April 2020.	n/a

Executive Directors’ remuneration continued

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
Bonus	Executive Directors do not currently participate in a discretionary annual cash bonus plan.	Our policy is to place greater emphasis on long-term variable pay elements for Executive Directors. Incentives are awarded under the LTIP.	n/a	n/a
LTIP	Executive Directors are granted awards under the LTIP. Awards may be made as conditional share awards or nil-cost options as considered appropriate. Awards will be performance shares with a three-year performance period. Following the end of the performance period, shares will be subject to a holding period of two years. The Executives may, at the discretion of the Committee, receive dividend equivalents on vested shares. The Committee may adjust and amend awards in accordance with the LTIP rules. Malus and clawback may be applied in exceptional circumstances.	Rewards long-term sustainable performance, in line with Funding Circle’s strategy. Focuses Executives on delivering outstanding value creation for shareholders.	A maximum opportunity of £1.98 million per annum for the CEO. A maximum opportunity of £1.12 million per annum for the CFO or any other Executive.	Normally subject to annual revenue growth and average annual EPS over three years. The Committee retains certain discretions, in line with market practice, in relation to the operation and administration of the plan. This includes the determination of performance measures and targets and resultant vesting and payout levels.
Shareholding requirement	Executive Directors are expected to build and maintain a holding of shares in the Company during and post-employment.	Supports our ownership mentality focus, promotes stewardship and helps align management with shareholders.	**Within employment** 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. **Post-employment** Executive Directors who step down from the Board following 1 January 2020 are required to retain a holding in “guideline shares” equal to: - 200% of salary (or their actual shareholding at the point of departure if lower) for the first 12 months following departure from the Board; and - 100% of salary (or their actual shareholding at the point of departure if lower) for the subsequent 12 months. “Guideline shares” do not include shares which the Executive Director held at IPO, purchased in the market directly, or acquired pursuant to the exercise of pre-IPO awards.	n/a

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. 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. The Non-Executive Directors are not entitled to any compensation on termination of their appointment. The Non-Executive Directors are entitled to reimbursement of reasonable expenses inclusive of any tax due on these 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

Change of control provisions

In the event of a change of control of the Company, awards granted under the 2018 LTIP 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 (if any) 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 or vesting 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. The Board may also permit the accelerated vesting of unvested options granted under the Company's pre-IPO share plans, in which case the options must be exercised within the period determined by the Board, after which they will lapse.

Pre-IPO awards held by the GLT and the Executive Directors and LTIP awards held by the GLT (but not the Executive Directors) are subject to additional protections which 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 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 Board's discretion to determine that a greater number of shares subject to an award should vest upon a change of control.

Annual report on remuneration

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 in 2020. An advisory shareholder resolution to approve this report will be proposed at the AGM. We also provide 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 year ended 31 December 2019 and 2018 respectively.

2019	Salary and fees £000	Taxable benefits[1] £000	Bonus £000	Pensions[2] £000	Long-term incentives[3] £000	Total £000	Total fixed £000	Total variable £000
Executive Directors								
Samir Desai	210	1	–	–	–	211	211	–
Sean Glithero	300	1	–	8	–	309	309	–
Non-Executive Directors								
Andrew Learoyd	200	–	–	–	–	200	200	–
Ed Wray	65	–	–	–	–	65	65	–
Eric Daniels	65	29	–	–	–	94	94	–
Bob Steel	65	–	–	–	–	65	65	–
Cath Keers	65	3	–	–	–	68	68	–
Geeta Gopalan	65	–	–	–	–	65	65	–
Hendrik Nelis[4]	–	–	–	–	–	–	–	–
Neil Rimer[4]	–	–	–	–	–	–	–	–

1. Taxable benefits for Executive Directors principally include private medical cover and life assurance cover. Taxable benefits for Non-Executive Directors relate to reimbursement of travel to the workplace. The Company ensures that the Non-Executive Directors are 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. Executive Directors are eligible to 3% of base salary as pension contribution. From April 2020, this will increase to 5%. The CEO has opted not to take up his right to the pension contribution.
3. No long-term incentives vested in respect of 2019.
4. Hendrik Nelis and Neil Rimer, who are not independent Non-Executives, have waived their entitlement to a fee.

2018	Salary and fees £000	Taxable benefits[1] £000	Bonus £000	Pensions[2] £000	Long-term incentives[3] £000	Total £000	Total fixed £000	Total variable £000
Executive Directors								
Samir Desai	210	1	–	–	3,870	4,081	211	3,870
Sean Glithero	300	–	–	5	777	1,082	305	777
Non-Executive Directors								
Andrew Learoyd	50	–	–	–	–	50	50	–
Ed Wray	16	–	–	–	–	16	16	–
Eric Daniels	16	20	–	–	–	36	36	–
Bob Steel	16	–	–	–	–	16	16	–
Cath Keers[4,5]	154	2	–	–	–	156	156	–
Geeta Gopalan[4,6]	111	–	–	–	–	111	111	–
Hendrik Nelis[7]	–	–	–	–	–	–	–	–
Neil Rimer[7]	–	–	–	–	–	–	–	–

1. Taxable benefits for Executive Directors principally include private medical cover and life assurance cover. Taxable benefits for Non-Executive Directors relate to reimbursement of travel to the workplace. The Company ensures that the Non-Executive Directors are 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. Executive Directors were eligible to 2% of base salary as pension contribution. The CEO opted not to take up his right to the pension contribution.
3. 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 2019. The values of the Pre-IPO Exec Options in the table above are calculated based on their fair market value on grant of £1.80.
4. Cath Keers received a pre-admission fee of £100,000 in September 2018 and Geeta Gopalan received a fee of £100,000 on joining the Board in November 2018, in both cases to reflect the 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.
5. Appointed 10 May 2018.
6. Appointed 1 November 2018.
7. Hendrik Nelis and Neil Rimer, who are not independent Non-Executives, waived their entitlement to a fee.

No LTIP awards capable of vesting for the financial year 2019

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 years to 31 December 2018 or 31 December 2019.

LTIP award granted during the financial year 2019

An LTIP award was granted to the CFO on 28 June 2019. The award was granted as a nil-cost share option over 584,246 shares, which vests subject to revenue and EPS performance measures over the three financial years ending 31 December 2021. Furthermore, the award will lapse if the share price at the end of the performance period is less than £4.40.

The CEO chose not to participate in the 2019 LTIP award.

Details of the LTIP award are set out below:

	Number of shares	Face value at grant[1]	Exercise price	% of award vesting at threshold
Sean Glithero	584,246	£1,051,643	£0	25%

1. Based on a grant date share price of £1.80.

LTIP payout matrix

Revenue growth	Performance level		% of award vesting		
Compound annual growth per annum over three years based on 2018	At and above 50%	55%	66.3%	77.5%	100%
	At and above 40%	27.5%	38.8%	50%	72.5%
	At and above 30%	13.8%	25%	36.3%	58.8%
	Below 30%	—	11.3%	22.5%	45%
Straight-line vesting between points			Above (1.1)p	Positive	Above 1.6p
			Earnings per share for the year 2021		

The LTIP award granted to the CFO will lapse on cessation of his employment.

Directors' shareholding and share interests (audited)

Table of Directors' share interests as at 31 December 2019

	Beneficially owned shares[1,2]	Vested but unexercised awards	Unvested awards (not subject to performance conditions)	Unvested awards (subject to performance conditions)	Total
Executive Directors					
Samir Desai	15,161,533	—	3,090,625	—	18,252,158
Sean Glithero	379,336	—	865,377	584,246	1,828,959
Non-Executive Directors					
Andrew Learoyd	1,689,991	100,000	—	—	1,789,991
Ed Wray	1,543,538	671,400	—	—	2,214,938
Eric Daniels	—	371,485	11,719	—	383,204
Bob Steel	614,754	350,000	—	—	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.
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 end of the 2019 financial year, the CEO complied with this requirement. The CFO was appointed to the Board on 28 November 2017 and currently holds vested shares equal to 111% of salary, calculated on 31 December 2019 when the share price was £0.874. Unvested awards are not taken into account.

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 be held by those Non-Executive Directors going forward, no further options will be granted to Non-Executive Directors under any of the Company's share option plans. The options held by the relevant Non-Executive Directors are all vested.

Annual report on remuneration continued

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

	Award type[1]	No. of awards at 1 January 2019	Awards granted in the year	Awards lapsed in the year
Executive Directors				
Samir Desai				
Vested	Growth	600,000	–	–
	ESS	208,344	–	–
	Growth	671,875	–	–
Unvested	Growth	–	–	–
	ESS	416,688	–	–
	Growth	1,478,125	–	–
	Unapproved	2,150,000	–	–
Sean Glithero				
Vested	Growth	162,573	–	–
Unvested	Growth	650,290	–	–
	2018 Long Term Incentive Plan	–	584,246	–
	Unapproved	431,850	–	–
Non-Executive Directors				
Andrew Learoyd				
Vested	Unapproved	87,500	–	–
Unvested	Unapproved	12,500	–	–
Ed Wray				
Vested	Unapproved	571,400	–	–
	Unapproved	87,500	–	–
Unvested	Unapproved	12,500	–	–
Eric Daniels				
Vested	Unapproved	195,704	–	–
	Unapproved	128,906	–	–
Unvested	Unapproved	58,594	–	–
Bob Steel				
Vested	Unapproved	250,000	–	–
	Unapproved	87,500	–	–
Unvested	Unapproved	12,500	–	–

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 79 (e.g. on termination of employment or change of control), unapproved options can be exercised during a period of ten years from the date of grant.

Payments for loss of office

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

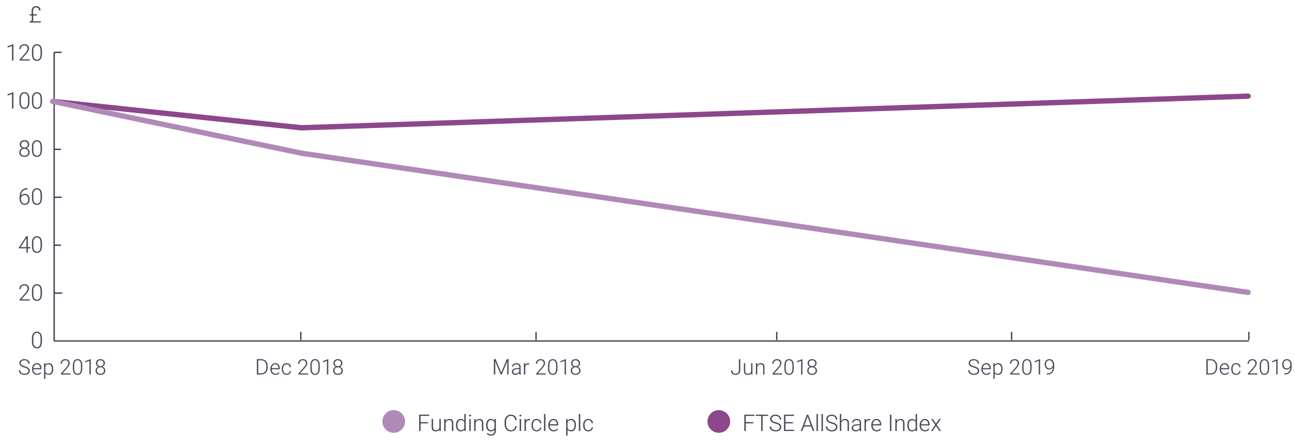
Payments to former Directors

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

Awards vested in the year	Awards exercised in the year	**No. of awards at 31 December 2019**	Date of grant/vesting commenced	Exercise price/ subscription price	Market price on exercise
–	–	**600,000**	10/03/2014	£0.00	n/a
416,688	–	**625,032**	18/06/2015	£0.00	n/a
537,500	–	**1,209,375**	01/08/2017	£0.02	n/a
–	–	**–**	10/03/2014	£0.00	n/a
(416,688)	–	**–**	18/06/2015	£0.00	n/a
(537,500)	–	**940,625**	01/08/2017	£0.02	n/a
–	–	**2,150,000**	13/06/2018	£0.00	n/a
216,763	–	**379,336**	01/10/2017	£0.02	n/a
(216,763)	–	**433,527**	01/10/2017	£0.02	n/a
–	–	**584,246**	28/06/2019	£0.00	n/a
–	–	**431,850**	13/06/2018	£0.00	n/a
12,500	–	**100,000**	18/06/2015	£0.32	n/a
(12,500)	–	**–**	18/06/2015	£0.32	n/a
–	–	**571,400**	19/08/2011	£0.03	n/a
12,500	–	**100,000**	18/06/2015	£0.32	n/a
(12,500)	–	**–**	18/06/2015	£0.32	n/a
–	–	**195,704**	22/04/2013	£0.03	n/a
46,875	–	**175,781**	01/03/2016	£0.39	n/a
(46,875)	–	**11,719**	01/03/2016	£0.39	n/a
–	–	**250,000**	15/07/2014	£0.21	n/a
12,500	–	**100,000**	18/06/2015	£0.35	n/a
(12,500)	–	**–**	18/06/2015	£0.35	n/a

Performance graph

The chart below illustrates the Company's TSR performance compared with that of the FTSE AllShare Index. This index has been chosen as the Company is a constituent and it is considered the most appropriate benchmark against which to assess the relative performance of the Company. The chart shows the value of £100 invested in Funding Circle at the IPO offer price of £4.40 per share on 28 September 2018 compared with the value of £100 invested in the FTSE AllShare Index.



CEO remuneration table

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

£000	**2019**	2018	2017	2016	2015
CEO total remuneration[1,2]	**211**	4,081	204	160	160

1. The 2018 figure includes share options that were granted prior to IPO which are subject to continued employment only. See footnote 3 to the 2018 single figure total remuneration table on page 80 for further details.
2. The CEO received no bonus during the five-year period.

Relative importance of spend on pay

The table below sets out our 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.

	2019	2018 (restated)	% Change
Revenue	**£167.4m**	£141.9m	18%
Adjusted EBITDA	**£(27.5)m**	£(23.4)m	(18%)
Employee costs	**£96.9m**	£84.8m	14%
Average number of employees	**1,055**	954	11%

Percentage change in CEO remuneration compared with employees

The CEO did not receive an increase to any element of his remuneration in 2019. The table below shows the average increase in each component between the CEO and the average employee in the Company from 2018 to 2019.

	Change in remuneration levels	
	CEO	Average employee
Salary	–	4%
Benefits	–	–

No bonus was paid to the CEO in 2018 or 2019.

CEO pay ratio

Funding Circle is committed to remunerating its employees fairly and competitively. We calculated our CEO pay ratio using the prescribed Methodology A, as shown in the table below. Methodology A was selected as this is considered the most accurate approach and is generally the preferred approach by shareholders and proxy agencies.

	Total remuneration		
2019	P25 (lower quartile)	P50 (median)	P75 (upper quartile)
CEO pay ratio	6.8:1	3.9:1	2.5:1
Salary	£27,576	£45,818	£78,798
Total remuneration	£30,921	£54,035	£83,298

The CEO remuneration is the total single figure remuneration for the year ended 31 December 2019 as disclosed on page 80.

The UK employee total remuneration has been calculated based on the amount paid or receivable for the year ended 31 December 2019.

The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Fees for the Chairman and Non-Executive Directors

The fees payable to the Non-Executive Directors in 2019 and for 2020 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 received a further £10,000 during 2019 for his involvement on multiple Committees. It is expected that he will step down as Chairman of Funding Circle Ltd in April 2020, at which point his Non-Executive Director fee will be £55,000.

Implementation of the Remuneration Policy for the year ended 31 December 2020

The table below shows the salaries for the Executive Directors as at 1 January 2020 in comparison to base salary as at 1 January 2019.

£000	1 Jan 2020	1 Jan 2019	% change
Samir Desai	210,000	210,000	—
Sean Glithero	300,000	300,000	—

The CFO will continue to be eligible to receive a pension contribution currently equal to 3% of base salary until April 2020, where it will increase to 5% of his base salary, which is in line with the wider workforce. The CEO continues not to take up his Company funded pension contribution.

Samir Desai has decided not to take up his LTIP award for 2020.

As Sean Glithero will stand down from his role as CFO during 2020, he will not receive a 2020 LTIP award.

An award to Oliver White will be made following commencement of his employment. The arrangements were considered in line with the Remuneration and Recruitment Policies and will be discussed in the 2020 Directors' Remuneration Report.

2020 Non-Executive Director remuneration

It has been determined that the Non-Executive Director fees will remain as set out in the table above, with the exception of Ed Wray, whose salary is expected to reduce to £55,000 with effect from April 2020 as described above.

External advisers

In September 2019, the Committee appointed Deloitte LLP as remuneration consultants in place of Pearl Meyer. During the year the Committee also received advice from Mercer. The Committee is satisfied that the advice it has received is independent and that the Deloitte, Pearl Meyer and Mercer 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, Pearl Meyer and Mercer in 2019 in relation to advice provided to the Committee were agreed by the Company in advance for specific projects and were £22,700, £115,000 and £5,000 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 UK Listing Authority's Listing Rules.

Report of the Directors

for the year ended 31 December 2019

The Directors present their report (the "Directors' Report") and the Annual Report and Accounts for the year ended 31 December 2019.

Information required to be part of the Directors' Report either by statute, by Listing Rule 9.8 or by the DTRs 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/DTRs	
Corporate governance statement	Corporate Governance Statement (page 49)
Going concern	Risk Management (page 48)
Directors' interests	Remuneration Report (page 81)
Long-term incentive schemes	Remuneration Report (pages 78 to 83)
Powers for the Company to buy back its shares	Directors' Report (page 87)
Allotment of shares during the year	Note 18 to the financial statements
Significant shareholders	Directors' Report (page 88)
Related party agreements	Note 26 to the financial statements
Statutory information	
Stakeholder engagement	Corporate Governance Statement – Our stakeholders (pages 57 to 60)
Employee involvement	Corporate Governance Statement – Our stakeholders (page 58) and Strategic Report - Our people (page 22)
Policy concerning the employment of disabled persons	Strategic Report – Our people (page 24)
Financial instruments	Note 17 to the financial statements
Future developments of the business	Strategic Report (pages 4 to 29)
Greenhouse gas emissions	Strategic Report – Sustainability (page 28)
Significant agreements	Directors' Report (page 88)
Non-financial reporting	Strategic Report – see below

Management Report

This Directors' Report, together with the Strategic Report on pages 1 to 48, 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 48.

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 22 to 25, the Sustainability section on pages 26 to 29, the Business Model and Risk Profile sections on pages 12 to 21 and the Risk Management and Going Concern and Viability Statement sections on pages 38 to 48.

Directors

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

Andrew Learoyd (Chairman)
Samir Desai CBE (co-founder, Chief Executive Officer)
Sean Glithero (Chief Financial Officer)
Eric Daniels (Independent Non-Executive Director)
Geeta Gopalan (Independent Non-Executive Director)
Cath Keers (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 234 of the Act pursuant to a separate deed of indemnity. Such indemnities contain provisions that are permitted by the Director liability provisions of the Act and the Company's Articles.

Directors' interests

The number of ordinary shares in which the Directors were beneficially interested as at 31 December 2019 is set out in the Directors' Remuneration Report on page 81.

In line with the requirements of the 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 have 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 96 to 154.

The Directors do not recommend payment of a final dividend for 2019 (2018: £nil).

Appointment and replacement of Directors

The rules governing the appointment and replacement of Directors are set out in the Company's Articles and are governed by the Code, the Act and related legislation. At the AGM, all Directors will offer themselves for re-election to the Company's Board other than Sean Glithero, who, as previously announced, will be stepping down as Chief Financial Officer in 2020.

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 AGM.

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 2020 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 34,636,663 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 2019 comprises 348,399,274 ordinary shares of £0.001 each. Further information regarding the Company's issued share capital can be found on page 133 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 Act 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 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 approval to deal in the Company's securities.

The lock-up arrangements agreed to by the Directors (and certain of their immediate family members), the GLT and certain major shareholders at the time of the Company's IPO expired in 2019.

Report of the Directors continued

for the year ended 31 December 2019

Change of control

Save in respect of certain awards made under the Company's share plans (as further described on page 79), 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 2019 and 28 February 2020, the Company has been notified pursuant to DTR5.1, 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 2019	Percentage issued share capital as at 31 December 2019	Number of ordinary shares as at 28 February 2020	Percentage issued share capital as at 28 February 2020	Nature of holding
Index Ventures	58,618,351	16.83	58,618,351	16.82	Indirect
Aktieselskabet af 2.7.2018	46,507,936	13.35	46,507,936	13.35	Indirect
Accel London Management	26,906,743	7.72	26,906,743	7.72	Indirect
Merian Global Investors	22,862,703	6.56	22,862,703	6.56	Indirect
Invesco	21,499,027	6.17	9,518,275	2.73	Indirect
DST Managers	16,505,378	4.74	16,505,378	4.74	Indirect
Mr Samir Desai	15,161,533	4.35	15,295,908	4.39	Indirect
Union Square Ventures	14,174,547	4.07	14,174,547	4.07	Indirect
T Rowe Price International	12,577,892	3.61	15,330,656	4.40	Indirect
Mr James Meekings	10,478,357	3.01	10,478,357	3.01	Indirect

In the period between 28 February 2020 and 12 March 2020 (the latest practicable date prior to the date of this report), the Company received a further notification pursuant to DTR5.1 in which T Rowe Price International disclosed a holding of 7.14%.

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 Kingdom, the United States of America, Canada, Germany, Spain and the Netherlands but the Group had no registered external branches during the reporting period or prior year.

External auditors

PwC have confirmed their willingness to continue as external auditors and a resolution to reappoint them as the Company's external auditors, and to authorise the Directors to fix the auditors' remuneration, will be proposed at the 2020 AGM.

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 external 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 section 418 of the Act.

2020 AGM

The Company's AGM will take place on 20 May 2020 at the Company's offices at 71 Queen Victoria Street, London EC4V 4AY. 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 the Company registrars' 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 (**corporate.fundingcircle.com/investors/shareholder-meetings**) 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 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 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 and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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.

Directors' confirmations

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 position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Report of the Directors, 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 loss of the Group and Company; and
- the Strategic 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 it faces.

Approved by the Board and signed on its behalf.

Samir Desai
Chief Executive Officer
12 March 2020

Independent auditors' report

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's loss and the Group's and the Company's 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 regards the Company's financial statements, 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 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 and Company balance sheets as at 31 December 2019; the Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated and Company statements 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 4 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

- Overall Group materiality: £2.5 million (2018: £2.2 million), based on 5% of loss before tax (adjusted for the impairment charge in respect of the Funding Circle Continental Europe ("FCCE") business). We considered it appropriate to reduce materiality through the exclusion of the impairment charge from our calculation given that this is material and one-off in nature.
- Overall Company materiality: £5 million (2018: £5.7 million), based on 1% of total assets.

- Our audit included full scope audits of the UK and US components which accounted for approximately 91% of the Group's net income and 68% of the Group's loss before tax (adjusted for the impairment charge in respect of the FCCE business).
- We performed specified procedures in respect of the FCCE component and at a Group level which together with the full scope audits accounted for 98% of the Group's net income and 88% of the Group's loss before tax (adjusted for the impairment charge in respect of the FCCE business).

- Accounting for the Asset Backed Securities ('ABS') bond programmes and the fair value of the SME loans (Group)
- Capitalisation of development costs (Group)
- Carrying value of investment in the US subsidiary (Company)

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 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 compliance with 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 relevant correspondence with the FCA and conducting inquiries of the Group's general counsel and the Group's head of legal and regulatory;
- 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;
- Identifying and testing journal entries and period end adjustments;
- Incorporating unpredictability into our testing; and
- Challenging assumptions and judgements made by management in its accounting estimates, in particular in relation to the capitalisation of development costs, loan loss provision, the fair value of SME loans and 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
Accounting for the Asset Backed Securities ('ABS') bond programmes and the fair value of the SME loans *Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements; Note 1 (Accounting policies); Note 13 (Investments in SME loans); and Note 17 (Financial risk management)* During the year, the Group launched a series of UK and US ABS bond programmes. As at the balance sheet date, the Group had not sold its residual holding in two securitisation vehicles and consequently management concluded that based on the exposure to the variability of cash flows, the securitised vehicles were required to be consolidated. As a result, the underlying SME loans held in the securitisation vehicles remain on balance sheet along with the bond liabilities to third parties. In the initial "warehousing phase" of the programmes the Group invests in SME loans and these are recorded on the balance sheet at fair value. As at the balance sheet date, the Group holds investments in SME loans amounting to £708.6m with corresponding bank borrowings of £265.8m for those in the warehousing phase and bond liabilities of £351.5m for those which have been securitised. We have focused on this in our audit as: - these are new and complicated transactions which have a significant impact on the Group's statement of comprehensive income and balance sheet; - judgement is required in relation to determining the appropriate accounting treatment for the recognition and measurement of the SME loans and related borrowings on the balance sheet; and - there is judgement in relation to estimating the fair value of the investments in SME loan assets and bond liabilities on the Group balance sheet.	Our audit procedures comprised the following: - Assessed the appropriateness of the accounting for the ABS bond programmes, in particular the judgements related to the consolidation of assets and liabilities associated with the warehoused and securitised vehicles and the classification and measurement of investments in SME loan assets and related liabilities; - Engaged our own valuation experts to assess the appropriateness of the methodology used by management in determining the fair value of the investments in SME loan assets and bond liabilities. This included assessing the appropriateness of the key assumptions within the valuation model which we considered to be the discount rate, default rate and prepayment rate; - We derived our own independent estimate of the discount rate and compared this to that used by management. We concluded that the discount rate utilised by management fell within a reasonable range; - We performed sensitivity analysis over each of the key assumptions in light of market rates, comparables and underlying performance of the loans; - Performed testing over a sample of the underlying loans, including obtaining loan confirmations, agreeing to original loan contracts and agreeing the initial funding of SME loans to bank statements; and - Recalculated the interest income on the warehoused and securitised SME loans. Based on the above procedures performed, we concluded that the accounting for the ABS bond programmes is appropriate and that the estimated fair value of the SME loans and bond liabilities was reasonable. We considered the appropriateness of the accounting policies in Note 1 to the Group financial statements and the disclosures of financial instruments in Note 17 and considered these to be reasonable.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Our audit approach continued

Key audit matters continued

Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs *Refer to Note 1 (Accounting Policies) and Note 11 (intangible assets).* The Group incurs costs in respect of developing its platforms (predominantly comprising staff and contractor costs) which are capitalised as an intangible asset on the Group's balance sheet. A total of £14.3m was capitalised in the year (2018: £10.8m) In order to capitalise the costs as intangible assets each of the criteria under IAS 38 'Intangible Assets' needs to be met. The reliable measurement of expenditure attributable to such development relies on the appropriate recording and accurate measurement of, in particular, time incurred by the Group's product development teams. We have focused on this in our audit as: - the application of judgement is required in assessing whether the IAS 38 criteria have been met; - determining the amounts to be capitalised requires estimation; and - there is judgement around estimating the useful economic lives ("UELs") of the capitalised assets and whether UELs are still appropriate.	Our audit procedures comprised the following: - For a sample of projects, we assessed whether each of the capitalisation criteria described in IAS 38 had been met and therefore whether capitalisation was appropriate. In doing so, we made inquiries of the Group's Director of Engineering and individual project leads. We obtained corroborating evidence to support the fulfilment of the criteria for each project we tested; - Tested the components of capitalised costs, e.g. salary, Employer National Insurance Contributions and pensions contributions. We tested these amounts to employee contracts and payroll reports. Where costs relate to contractors, we agreed amounts directly to invoices and checked the invoice description correlated to the project in question; - Assessed the proportion of time spent by the product development team on relevant projects. This involved confirming employee time spent on projects with project leads and for a selection of employees, corroborating this with supporting evidence such as calendar invites for a given month; - We assessed the UELs of individual assets capitalised and understood the basis on which these were determined. We challenged management on whether the UELs of existing assets remained appropriate where planned development may supersede the asset; and - We assessed management's analysis of the continued use of intangible assets. Selecting in particular older assets, we made inquiries of the Group's Director of Engineering and corroborated their continued use. Based on the above procedures performed, we concluded that the capitalisation of development costs in the year complied with the requirements of IAS 38 and the estimation of the UELs of intangible assets was reasonable.
Carrying value of investment in the US subsidiary Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements; Note 1 (Accounting policies); and Note 5 (Investments in subsidiary undertakings) of the Company financial statements. The Company holds an investment in the US subsidiary with a carrying value of £243.9m. This has increased from £129.8m in 2018 following significant capital contributions, in particular for the US securitisation programme. IAS 36 'Impairment of Assets' requires that investments are subject to an impairment review when there is an indication that an asset may be impaired. The indications that the carrying value of the investment in the US subsidiary may be impaired are: - the carrying amount of net assets of the Company exceeded the market capitalisation at 31 December 2019; and - actual or forecast net cash outflows or operating profits or losses are significantly worse than expected. Management performed an impairment assessment and estimated the recoverable amount using a value-in-use model and concluded there was no impairment of the carrying value. The key assumptions in this assessment included the forecast cash flow growth, the discount rate and the perpetuity growth rate. We have focused on this area as the calculation of value in use involves a significant degree of judgement and the estimation uncertainty is high.	Our audit procedures comprised the following: - Assessed the methodology used by management against the requirements of the financial reporting framework and tested the mathematical accuracy of the model; - Agreed the forecast financial information to budgets and forecasts approved by senior management and the Board; - Evaluated the reliability of management's forecasting by comparing actual results with previous years' forecasts; - Compared the forecast growth rates with those achieved by the UK business when it was at a similar stage in its life cycle as well as those of similar businesses in the US market; - Identified the key drivers in management's forecasts and assessed their reasonableness by comparing them to historical results. Where significant improvements were forecast in key assumptions underpinning the forecast cash flow growth, we challenged management on whether the forecast improvements were reasonable and supportable; - Assessed the appropriateness of the discount rate assumption by using experts to derive an independent view on the rate. We agreed the inputs into management's calculation to third party data; - Assessed the appropriateness of the long term growth rate by agreeing it to independent external evidence including OECD publications and analyst reports; and - We performed sensitivity on the key assumptions in the model. Based on the above procedures performed, we considered the Directors' conclusion that the carrying value of the US subsidiary is not impaired to be reasonable. We considered the appropriateness of the related disclosures in Note 1 to the Company financial statements and considered these to be reasonable.

Report on the audit of the financial statements continued

Our audit approach continued

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 and the Company, the accounting processes and controls, and the industry in which they operate.

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:

	Group financial statements	Company financial statements
Overall materiality	£2.5 million (2018: £2.2 million).	£5 million (2018: £5.7 million).
How we determined it	5% of loss before tax (adjusted for the impairment charge related to the FCCE business).	1% of total assets.
Rationale for benchmark applied	We determined materiality by applying 5% to consolidated loss before tax after adjusting for the impairment charge related to the FCCE business. We consider loss before tax to be the most appropriate benchmark used in assessing the performance of the Group as the business is listed and profit orientated. We believe that loss before tax adjusted for the impairment charge related to the FCCE business is the most appropriate measure as it eliminates the impact of this material and one-off charge. We highlight that this gives rise to a lower materiality than would be derived if using the statutory measure of loss before tax.	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 investments in the Group's subsidiaries.

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 £1,200,000 and £2,100,000. 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 £125,000 (Group audit) (2018: £110,000) and £250,000 (Company audit) (2018: £280,000) as well as misstatements below those amounts 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 and 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. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's and 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.

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

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Reporting on other information continued

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 Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 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 Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors. (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 49 to 89) 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 Company and their 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 49 to 89) 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 42 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 48 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 Company and their 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 89, 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 and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report, on pages 66 to 71, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- 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)

Report on the audit of the financial statements continued

Reporting on other information continued

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

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 Company 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 5 years, covering the years ended 31 December 2015 to 31 December 2019.

Nick Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 March 2020

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	31 December 2019 £m	31 December 2018 (restated) £m
Transaction fees		**121.2**	112.9
Servicing fees		**30.4**	24.9
Net investment income:		**10.5**	–
– Investment income		*28.3*	–
– Investment expense		*(7.9)*	–
– Fair value (losses)/gains		*(9.9)*	–
Other fees		**5.3**	4.1
Net income	3	**167.4**	141.9
People costs	6	**(90.3)**	(79.2)
Marketing costs	4	**(66.5)**	(57.8)
Depreciation and amortisation	4	**(14.9)**	(12.5)
Loan repurchase charge	4	**(6.5)**	(2.6)
Impairment (exceptional)	5	**(34.3)**	–
IPO adviser costs (exceptional)	5	**–**	(5.9)
Other costs		**(39.6)**	(34.7)
Operating expenses	4	**(252.1)**	(192.7)
Operating loss		**(84.7)**	(50.8)
Finance income	7	**1.8**	0.9
Finance costs	7	**(1.2)**	(1.0)
Share of net loss of associates	29	**(0.1)**	–
Loss before taxation		**(84.2)**	(50.9)
Income tax	8	**(0.5)**	1.4
Loss for the year		**(84.7)**	(49.5)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations	20	**(7.7)**	2.4
Total comprehensive loss for the year		**(92.4)**	(47.1)
Total comprehensive loss attributable to:			
Owners of the Parent		**(92.4)**	(47.1)
Loss per share			
Basic and diluted loss per share	9	**(24.4)p**	(18.2)p

All amounts relate to continuing activities.

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 1.

The notes on pages 100 to 143 form part of these financial statements.

Consolidated balance sheet
as at 31 December 2019

	Note	31 December 2019 £m	31 December 2018 (restated) £m
Non-current assets			
Goodwill	10	**11.3**	42.3
Intangible assets	11	**23.6**	21.5
Property, plant and equipment	12	**39.0**	25.2
Investment in associates	29	**13.2**	–
Investment in SME loans (other)	13	**1.7**	0.3
		88.8	89.3
Current assets			
Investment in SME loans (curing)	13	**–**	4.7
Investment in SME loans (warehouse)	13	**342.0**	–
Investment in SME loans (securitised)	13	**366.6**	–
Trade and other receivables	14	**33.6**	23.0
Cash and cash equivalents	23	**164.5**	333.0
		906.7	360.7
Total assets		**995.5**	450.0
Current liabilities			
Trade and other payables	15	**19.7**	19.3
Bank borrowings	17	**265.8**	–
Bonds	17	**348.7**	–
Short-term provisions	16	**3.1**	3.8
Lease liabilities	12	**8.5**	5.0
		645.8	28.1
Non-current liabilities			
Long-term provisions	16	**0.9**	0.8
Lease liabilities	12	**29.8**	20.1
Total liabilities		**676.5**	49.0
Equity			
Share capital	18	**0.3**	0.3
Share premium account	19	**292.3**	291.8
Foreign exchange reserve	20	**8.0**	15.7
Share options reserve		**11.9**	6.0
Retained earnings	21	**6.5**	87.2
Total equity		**319.0**	401.0
Total equity and liabilities		**995.5**	450.0

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 1.

The financial statements on pages 96 to 143 were approved by the Board and authorised for issue on 12 March 2020. They were signed on behalf of the Board by:

Sean Glithero
Director

Company registration number 07123934

The notes on pages 100 to 143 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	(Accumulated losses)/ retained earnings £m	Total equity £m
Balance at 1 January 2018 as previously reported		0.2	278.0	13.3	13.9	(153.2)	152.2
Impact of adoption of IFRS 16 (note 1)		—	—	—	—	(1.2)	(1.2)
Restated balance at 1 January 2018		0.2	278.0	13.3	13.9	(154.4)	151.0
Loss for the year	21	—	—	—	—	(49.5)	(49.5)
Other comprehensive income							
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 (restated)		0.3	291.8	15.7	6.0	87.2	401.0
Loss for the year	21	—	—	—	—	(84.7)	(84.7)
Other comprehensive loss							
Exchange differences on translation of foreign operations	20	—	—	(7.7)	—	—	(7.7)
Transactions with owners							
Transfer of share option costs	21	—	—	—	(4.0)	4.0	—
Issue of share capital	18, 19	—	0.5	—	—	—	0.5
Employee share schemes – value of employee services		—	—	—	9.9	—	9.9
Balance at 31 December 2019		**0.3**	**292.3**	**8.0**	**11.9**	**6.5**	**319.0**

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 1.

The notes on pages 100 to 143 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	31 December 2019 £m	31 December 2018 (restated) £m
Net cash outflow from operating activities	23	**(27.0)**	(30.6)
Investing activities			
Purchase of intangible assets		**(14.5)**	(11.0)
Purchase of property, plant and equipment		**(2.7)**	(2.3)
Cash receipts from SME loans (curing)		**4.7**	0.2
Purchase of SME loans (other)		**(1.5)**	(1.3)
Purchase of SME loans (warehouse phase)		**(381.2)**	–
Purchase of SME loans (securitised)		**(414.5)**	–
Cash receipts from SME loans (warehouse phase)		**32.5**	–
Cash receipts from SME loans (securitised)		**37.4**	–
Investment in associates		**(13.9)**	–
Interest received		**1.9**	0.9
Net cash outflow from investing activities		**(751.8)**	(13.5)
Financing activities			
Proceeds from bank borrowings		**462.1**	–
Repayment of bank borrowings		**(192.7)**	–
Proceeds from issuance of bonds		**379.5**	–
Payment of bond liabilities		**(30.1)**	–
Preferred dividend payment		**–**	(0.5)
Proceeds on the issue of ordinary shares on IPO	19	**–**	300.0
Payment of IPO adviser costs	5	**–**	(9.1)
Proceeds from the exercise of share options		**0.7**	1.1
Payment of lease liabilities		**(7.1)**	(3.8)
Net cash inflow from financing activities		**612.4**	287.7
Net (decrease)/increase in cash and cash equivalents		**(166.4)**	243.6
Cash and cash equivalents at the beginning of the year		**333.0**	88.9
Effect of foreign exchange rate changes		**(2.1)**	0.5
Cash and cash equivalents at the end of the year		**164.5**	333.0

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 1 - and to re-present certain IPO adviser costs within operating cash flows – refer to note 23.

The impact of exceptional items on the consolidated statement of cash flows is detailed in note 5.

The notes on pages 100 to 143 form part of these financial statements.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2019

1. Accounting policies

General information

Funding Circle Holdings plc (the "Company") is a public company limited by shares, which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of its registered office is given on page 156. The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activities of the Group and the nature of the Group's operations are as a global SME loan platform.

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 £92.4 million during the year ended 31 December 2019 (2018 restated: loss of £47.1 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 of 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 48.

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 ("FVTPL").

The preparation of financial statements in conformity with IFRS requires the use of certain 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 2.

Significant changes in the current reporting year

The financial position and performance of the Group were affected by the following events and transactions during the year ended 31 December 2019:

i) Asset-backed securities ("ABS")

During the year, the Group commenced bond programmes in the UK and US. In the initial "warehousing phase" of the programmes the Group invested in SME loans using both its own cash and amounts borrowed under a credit facility with lending institutions. The loans are held within a bankruptcy remote special purpose warehouse vehicle which is consolidated in the Group's balance sheet. Once the warehouse vehicle reaches sufficient scale, the SME loans are sold into another bankruptcy remote special purpose vehicle ("SPV") financed through the issuance of bonds to third party investors and the amounts borrowed under the credit facility are repaid. As at 31 December 2019, £292.2 million of SME loans have been sold to SPVs.

The bonds are split into senior rated bonds (referred to as "rated") and junior unrated bonds (referred to as "unrated") and under risk retention regulations the Group is required to retain at least 5% of the bonds issued by the SPV (referred to as the "retention holding").

Whilst the Group is required to retain 5% of the overall bond issuance, in the UK and the US, as at 31 December 2019 the Group holds 51% and 100% respectively of the unrated bonds (referred to as the "residual"). The residual is similar to equity and, given that the risks and rewards of ownership and exposure to the majority of the variability in cash flows continue to reside with the Group, the securitisation SPVs in both the UK and US are currently consolidated. As a result the underlying SME loan book held in the securitisation SPVs remain on balance sheet along with the bond liabilities to third parties.

1. Accounting policies continued

Significant changes in the current reporting year continued

i) Asset-backed securities ("ABS") continued

Warehousing phase

During the warehousing phase the Group earns interest income on the SME loans and incurs interest expense on the drawn credit facility as well as gains/losses from changes in the fair value of the SME loans retained on its balance sheet. As the SME loans and bank borrowings under the credit facility are held within a bankruptcy remote vehicle, the Group's credit exposure is limited to its loan funding to the vehicle.

Securitisation phase

As the securitisation vehicles currently remain on balance sheet, the Group continues to earn interest income on SME loans securitised and incurs interest expense on the bond liabilities, as well as gains/losses from changes in the fair value of both the SME loans and unrated bond liabilities held at fair value. Again, as the SME loans and bonds are held within bankruptcy remote vehicles, the Group's credit exposure is limited to its net residual and retention holding in the vehicles.

If the residuals were to be substantively sold in the future, which is the Group's intention, it is expected that the securitisation SPVs would be deconsolidated.

ii) Private Funds (note 30)

During the year, the Group established a European private fund for its Developing Markets and a UK private fund, which are used to acquire loans originated on the Funding Circle platform. In order to establish the funds the Group provided seed capital. Further institutional investors have subsequently invested in these vehicles. As at 31 December 2019, the Group's interest in the European fund was 24% and in the UK fund was 14% and these investments have been accounted for as associates. The Group's interest in the funds is expected to decline over time as further institutions invest in the funds.

Changes in accounting policy and disclosures

The Group has adopted the following new and amended IFRSs and interpretations from 1 January 2019 on a full retrospective basis.

Standard/interpretation	Content	Applicable for financial years beginning on/after
IFRS 16	Leases	1 January 2019
Prepayment Features with Negative Compensation – Amendments to IFRS 9	Financial instruments	1 January 2019
Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28	Associates and joint ventures	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	Business combinations, joint arrangements, income taxes and borrowing costs	1 January 2019
Plan Amendment, Curtailment or Settlement – Amendments to IAS 19	Employee benefits	1 January 2019
Interpretation 23 – Uncertainty over Income Tax Treatments	Income taxes	1 January 2019

Aside from IFRS 16 detailed below, the other amendments and interpretations listed above did not significantly affect the current year and are not expected to significantly affect future years.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting years, have not yet been endorsed by the EU and have not been early adopted by the Group as follows:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 3 Business Combinations, definition of a business	Business combinations	1 January 2020
Amendments to IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, definition of material	Definition of material	1 January 2020
Revised Conceptual Framework for Financial Reporting and Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	Associates and joint ventures	1 January 2020

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

1. Accounting policies continued

Changes in accounting policy and disclosures continued

These standards are not expected to have a material impact on the Group in the current or future reporting years and on foreseeable future transactions. IFRS 16 Leases was issued in January 2016 and was endorsed by the EU in 2017. The standard is effective for annual periods beginning on or after 1 January 2019 and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019.

The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"), and lease contracts for which the underlying asset is of low value ("low-value assets").

The impact of IFRS 16 Leases has resulted in the Group recording its current property leases on the balance sheet as a right-of-use asset and a corresponding lease obligation. The leases impacted were previously treated as operating leases. The change in recognition has resulted in increased depreciation charges, a reduction in lease costs in the income statement and an increase in finance costs.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

Upon recognition, the weighted average incremental borrowing rate used in measuring lease liabilities across the Group was 4%.

The following tables summarise the impact of adopting IFRS 16 on the Group's consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated balance sheet for the year ended and as at 31 December 2019. The tables below show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Impact of the change in accounting policies on the consolidated statement of comprehensive income

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS 16 £m	**IFRS 16 £m**	**As reported £m**	Amounts without adoption of IFRS 16 £m	IFRS 16 £m	Restated £m
Depreciation and amortisation	**(9.4)**	**(5.5)**	**(14.9)**	(8.2)	(4.3)	(12.5)
Other costs	**(46.2)**	**6.6**	**(39.6)**	(39.8)	5.1	(34.7)
Operating expenses	**(253.2)**	**1.1**	**(252.1)**	(193.5)	0.8	(192.7)
Operating loss	**(85.8)**	**1.1**	**(84.7)**	(51.6)	0.8	(50.8)
Finance costs	**—**	**(1.2)**	**(1.2)**	—	(1.0)	(1.0)
Loss before taxation	**(84.1)**	**(0.1)**	**(84.2)**	(50.7)	(0.2)	(50.9)
Loss for the year	**(84.6)**	**(0.1)**	**(84.7)**	(49.3)	(0.2)	(49.5)
Other comprehensive income:						
Total comprehensive loss for the year	**(92.3)**	**(0.1)**	**(92.4)**	(46.9)	(0.2)	(47.1)
Total comprehensive loss attributable to:						
Owners of the Parent	**(92.3)**	**(0.1)**	**(92.4)**	(46.9)	(0.2)	(47.1)

1. Accounting policies continued

Impact of the change in accounting policies on the consolidated balance sheet

	As at 31 December 2019			As at 31 December 2018		
	Amounts without adoption of IFRS 16 £m	IFRS 16 £m	As reported £m	Amounts without adoption of IFRS 16 £m	IFRS 16 £m	Restated £m
Non-current assets						
Property, plant and equipment	5.0	34.0	39.0	5.3	19.9	25.2
Total assets	961.5	34.0	995.5	430.1	19.9	450.0
Current liabilities						
Trade and other payables	22.7	(3.0)	19.7	23.1	(3.8)	19.3
Lease liabilities	—	8.5	8.5	—	5.0	5.0
	640.3	5.5	645.8	26.9	1.2	28.1
Non-current liabilities						
Lease liabilities	—	29.8	29.8	—	20.1	20.1
Total liabilities	641.2	35.3	676.5	27.7	21.3	49.0
Equity						
Retained earnings	7.8	(1.3)	6.5	88.6	(1.4)	87.2
Total equity	320.3	(1.3)	319.0	402.4	(1.4)	401.0
Total equity and liabilities	961.5	34.0	995.5	430.1	19.9	450.0

Impact of the change in accounting policies on the consolidated statement of cash flows

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS 16 £m	IFRS 16 £m	As reported £m	Amounts without adoption of IFRS 16 £m	IFRS 16 £m	Restated £m
Net cash outflow from operating activities	(34.1)	7.1	(27.0)	(34.4)	3.8	(30.6)
Financing activities						
Payment of lease liabilities	—	(7.1)	(7.1)	—	(3.8)	(3.8)
Net cash inflow from financing activities	619.5	(7.1)	612.4	291.5	(3.8)	287.7

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

1. Accounting policies continued

Impact of the change in accounting policies on segmental information

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS 16 £m	**IFRS 16 £m**	**As reported £m**	Amounts without adoption of IFRS 16 £m	IFRS 16 £m	As reported £m
United Kingdom	**31.2**	**2.8**	**34.0**	21.8	2.8	24.6
United States	**(13.1)**	**2.8**	**(10.3)**	(7.4)	1.7	(5.7)
Developing Markets	**(13.5)**	**1.0**	**(12.5)**	(7.4)	0.6	(6.8)
Segment adjusted EBITDA	**4.6**	**6.6**	**11.2**	7.0	5.1	12.1
Adjusted EBITDA	**(34.1)**	**6.6**	**(27.5)**	(28.5)	5.1	(23.4)
Depreciation and amortisation	**(9.4)**	**(5.5)**	**(14.9)**	(8.2)	(4.3)	(12.5)
Operating loss	**(85.8)**	**1.1**	**(84.7)**	(51.6)	0.8	(50.8)

Summary of new and amended accounting policies

Consolidation of special purpose entities ("SPEs")

Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity's returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group assesses whether it controls special purpose entities ("SPEs") and the requirement to consolidate them under the criteria of IFRS 10. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying assets and raising debt on those assets which is used to fund the Group) and uses this control to obtain a variable return (for example, retaining the residual risk on the assets). Structures that do not meet these criteria are not treated as subsidiaries and the assets are derecognised when they are sold.

Where the Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying assets through its continued investment or where the Group does not retain a direct ownership interest in an SPE, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated.

Net investment income

Net investment income from financial instruments measured at fair value through profit or loss includes:

- interest income from investments in SME loans that the Group holds on balance sheet ("investment income");
- interest payable on funds borrowed to finance the acquisition of underlying loan investments ("investment expense");
- interest payable on bond liabilities held on balance sheet;
- gains/losses from changes in the fair value of financial assets held on balance sheet;
- gains/losses from changes in fair value of hedging instruments; and
- amortisation of costs associated with the issuing of bonds and the credit facility.

Leases

At inception of a contract, the Group assesses whether or not a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When a lease is recognised in a contract the Group recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain remeasurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

1. Accounting policies continued

Summary of new and amended accounting policies continued

Leases continued

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable;
- variable lease payments based on an index or a rate, initially measured using the index or rate at the commencement date; and
- amounts expected to be payable by the Group under residual value guarantee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group's incremental borrowing rate is used, which is the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses an approach taking the risk-free interest rate adjusted for credit risk for leases held by Funding Circle Holdings plc; and
- makes adjustments specific to the lease for term, country and currency.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing it by the lease payments made. The lease liability is remeasured when there is a lease modification.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Extension and termination options are included in a number of property leases in the Group. Management considers the facts and circumstances that may create an economic incentive to exercise an extension or termination option in order to determine whether the lease term should include or exclude such options. Extension or termination options are only included within the lease term if they are reasonably certain to be exercised in the case of extension options and not exercised in the case of termination options.

Considerations include:

- if leasehold improvements are expected to have significant value at the end of the lease term;
- expected costs or business disruption as a result of replacing a lease; and
- significant penalties incurred in order to terminate.

Lease terms are reassessed if the option is exercised or if a significant event occurs which impacts the assessment of reasonable certainty.

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

When the Group is an intermediate lessor, entering into a sublease, it accounts for the head lease and the sublease separately. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. Rental income from operating leases is recognised on a straight-line basis over the lease term and the Group retains the right-of-use asset deriving from the head lease and the lease liability on the balance sheet.

Amounts due from lessees under finance leases are recognised as receivables equivalent to the Group's net investment in the lease and the right-of-use asset from the head lease is derecognised. Any difference resulting from the derecognition of the right-of-use asset and recognition of the net investment in the sublease is recognised in the consolidated statement of comprehensive income. The head lease liability remains on the balance sheet and interest expense continues to be recognised, while interest income is recognised from the sublease.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

1. Accounting policies continued

Summary of new and amended accounting policies continued

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost. This is adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated statement of comprehensive income. The Group's share of movements in other comprehensive income of the investee is recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Financial instruments

Financial assets

The Group determines the classification of its financial assets at initial recognition. The requirements of IFRS 9 for classification and subsequent measurement are 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 other comprehensive income ("FVTOCI") if they are held within the business model defined as "held to collect and sell", 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 ('FVTPL'). 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 SME loans 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 investment in SME loans under cure period, investment in SME loans (warehouse) and investment in SME loans (securitised), all financial assets are held to collect contractual cash flows.

1. Accounting policies continued

Financial instruments continued

Financial assets continued

Under certain circumstances the Group holds investments in SME loans. The four types of investment in SME loan securities held are as follows:

i) Investment in SME loans (curing)

In the US, investors commit to provide funding 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 SME loans (curing) have been classified as financial assets at fair value through profit or loss.

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 the consolidated statement of comprehensive income.

ii) Investment in SME loans (warehouse)

During the warehouse phase of the securitisation programme, the SME loans purchased using both the Group's cash and amounts borrowed under credit facilities are held on the Group's balance sheet. These investments in SME loans have been classified as financial assets at fair value through profit or loss. The above classification is because all such loans are acquired principally for selling in the short term and the collection of interest is incidental. They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

iii) Investment in SME loans (securitised)

Under risk retention regulations the Group is required to retain at least 5% of the bonds issued by the securitisation SPV.

Retaining a significant proportion of the residual

Whilst the Group is required to retain 5% of the overall bond issuance, where the Group holds a significant proportion of the unrated bonds (referred to as the "residual"), the Group continues to consolidate the securitisation SPV as it considers that the risks and rewards of ownership continue to reside with the Group. As a result the underlying SME loan book held in the SPV remains on balance sheet along with the bond liabilities to third parties. They continue to be measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

Selling a significant portion of the residual

Where the Group sells a significant portion of the residual, the Group may no longer be deemed to retain the majority of the risks and rewards of ownership and the Group deconsolidates the securitisation SPV. The Group would still need to apply the derecognition rules of IFRS 9 to the investment in SME loan assets.

iv) Investment in SME loans (other)

The Group holds investments in certain SME business loans as a result of a commercial arrangement with institutional investors in the marketplace (see note 13).

These investments in other SME loans are classified as amortised cost (as they are held solely to collect principal and interest payments) 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 are classified as 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 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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

1. Accounting policies continued

Financial instruments continued

Financial assets continued

Impairment of financial assets

The Group applies the impairment requirements of IFRS 9. The IFRS 9 impairment model requires 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 ("ECLs") (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 ECLs (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 ECLs 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 associated with its financial assets carried at amortised cost and recognises a loss allowance for such losses at each reporting date. The measurement of ECLs 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.

Bank borrowings

Bank borrowings (drawdowns under the credit facilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

Derivative financial instruments

Interest rate caps are in place to partially mitigate the floating rate interest rate risk associated with drawn amounts from borrowing facilities and risk associated with floating rate ABS bond liabilities consolidated into the Group. The derivatives are recognised initially at fair value reflecting the time value implicit in the premium paid and are subsequently recognised at fair value with gains and losses recognised in profit or loss. See note 17 for details of interest rate risk.

1. Accounting policies continued

Financial instruments continued

Financial liabilities continued

Bonds

Bonds represent the bond liabilities which the Group must pay to the bond holders from the cash flows generated from the SME loans (securitised) held on balance sheet. The liability excludes any amount of bonds that the Group has retained as these are eliminated upon consolidation.

IFRS 9 permits a company to elect to fair value the bond liabilities where there is an accounting mismatch. In the Group's case the associated assets generating the cash flows to pay the bonds are the SME loans (securitised) which are measured at fair value through profit and loss.

As the cash flows from the SME loans are used to repay the rated bond tranches in advance of the unrated bonds, the Group does not consider there to be a significant accounting mismatch as default levels impact the unrated bonds first. Therefore the rated bonds are measured at amortised cost. However, as the unrated bonds are most affected by fair value movements in the SME loans, the Group has elected to measure the unrated tranches of bonds at fair value through profit and loss to eliminate the accounting mismatch.

See note 17 for details of the fair value methodology and interest rate risk.

Transaction costs associated with the issuance of bonds are deferred to the balance sheet and recognised over the lifetime of the bonds using the effective interest rate method.

Summary of existing accounting policies

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.

Structured entities are entities that are designed so that their activities are not governed by voting rights. In assessing whether the Group has power over such entities, the Group considers factors such as the purpose and design of the entity; its practical ability to direct the relevant activities of the entity; the nature of the relationship with the entity; and the size of its exposure to the variability of returns of the entity.

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 balance sheet, 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.

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.

Presentation currency

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

Notes forming part of the consolidated financial statements continued
for the year ended 31 December 2019

1. Accounting policies continued

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 the function 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.

Transactions 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 (see note 5).

Income recognition

Revenue is recognised in line with IFRS 15 which 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.

Revenue earned for the arrangement of loans is classified as transaction fees and is a cost of the borrower. The contract signed by the borrower and related terms are clearly identifiable. The performance obligation in the contract is considered to be the funding of the loan through the marketplace platform and the transaction price is clearly stated in the borrower's contract. Fees are recognised immediately once loans are fully funded on the marketplace and after the loans are accepted by the borrowers. At this point the performance obligation has been met and there are no clawback provisions. Such fees are automatically deducted from the amount borrowed and recognised at that point as the Group has the right to consideration and the performance obligation has been satisfied.

Revenue earned from servicing third party loans is classified as servicing fees and is a cost of the investor. It comprises an annualised fee representing a percentage of outstanding principal. The contractual basis for the servicing fee and transaction price is based on the terms and conditions agreed by investors to the lending platform. The performance obligation is in order to service the loans and allocate repayments of the loan parts to the respective lenders. The transaction price is allocated to the outstanding principal balance being the outstanding ongoing performance obligation. Fees are recognised on a monthly basis upon repayment of loan parts. Due to the conditions of the trade, there are no partially completed contracts at the balance sheet date and no advance payments from customers.

Net investment income includes:

- interest income from SME loans that the Group holds on balance sheet ("investment income");
- interest payable on funds borrowed to finance the acquisition of underlying loan investments ("investment expense");
- gains/losses from changes in the fair value of financial assets held on balance sheet;
- gains/losses from changes in fair value of hedging instruments; and
- amortisation of costs associated with the issuing of bonds and the credit facility.

Net investment income is generated from financial instruments, with the recognition criteria of IFRS 9 and not IFRS 15.

Fees included within other fees include referral fees, excess premium or fees earned from agreeing to buy back defaulted loans from certain institutional investors and any income earned on investments in loan securities and are recognised as services are performed on an accruals basis.

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

1. Accounting policies continued

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.

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, revenue, earnings per share 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, US and Netherlands. The schemes are pension plans 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.

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 affects 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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

1. Accounting policies continued

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, which is up to five years as at 31 December 2019.

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, build 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 build of the platform products so that they will be available for use;
- management intends to complete the build of the platform products for use within the Group;
- there is an ability to use the platform products;
- it can be demonstrated how the platform products will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the platform products are available; and
- the expenditure attributable to the platform products 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. The capitalisation of employee costs is based on the amount of time spent on specific projects which meet the criteria as a proportion of their total time, and this proportion of their salary-related costs is attributed to the applicable projects.

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.

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.

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.

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.

Loan buy back contracts

Loan buy back 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. Loan buy back contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the contract. 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. The expected credit loss model is used to measure and recognise the financial liability (as further detailed in note 16).

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.

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 year.

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 reserve represents the cumulative foreign currency translation movement on the assets and liabilities of the Group's international operations at year-end exchange rates and on the profit and loss items from average exchange rates to 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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source 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. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

There were no critical judgements in the current year. The significant estimates applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2018.

Key sources of estimation uncertainty

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 financial statements.

Estimated impairment of assets (note 10)

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 ("CGUs") 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. During the year, impairment was identified in relation to the goodwill and tangible and intangible assets of the German and Dutch businesses within the Developing Markets segment. Based on the performance of the German and Dutch businesses and changes to the medium-term outlook for the non-financial assets included within the associated CGU it was determined that the carrying value exceeded the recoverable amount. Goodwill was fully impaired by £29.0 million, tangible fixed assets by £0.7 million and intangible assets by £4.6 million. There was not considered to be a recoverable amount in relation to these assets.

Loan repurchase provision (note 16)

In certain circumstances, in the less mature markets, Funding Circle has entered into arrangements with institutional investors to assume the credit risk on the loan investments made by the institutional investors. The Group must estimate the expected credit loss ("ECL") for these commitments at each reporting date.

Significant estimation 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 including macroeconomic forecasts such as changes in interest rates, GDP and inflation. The most significant estimation is with delinquencies and default rates on performing loans. For the year ended 31 December 2019 the weighted average lifetime default rate was 12.9%. If the weighted average default rate were to change by 25%, the provision would change by £1.5 million for the year ended 31 December 2019. It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-25% and as a result it is possible that the provision in future could materially diverge from management's estimate.

Fair value of financial instruments (note 17)

At 31 December 2019, the carrying value of the Group's financial instrument assets held at fair value was £754.8 million (31 December 2018: £154.7 million) and the carrying value of financial liabilities carried at fair value was £16.0 million (2018: £nil).

In accordance with IFRS 13 Fair Value Measurement, the Group categorises financial instruments carried on the consolidated balance sheet at fair value using a three-level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal estimation applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation estimation techniques including discounted cash flow analysis and valuation models. The most significant estimation is with respect to discount rates. A sensitivity to the discount rate is illustrated below.

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (warehouse)	342.0	Discount rate	US 7.8% UK 6.3%	A change in the discount rate by 50 bps would increase/decrease fair value by £2.8 million.
Investment in SME loans (securitised)	366.6	Discount rate	US 6.8% UK 5.9%	A change in the discount rate by 50 bps would increase/decrease fair value by £2.7 million.
Bonds (unrated)	(16.0)	Discount rate	UK 11.6%	A change in the discount rate by 50 bps would increase decrease fair value by £0.3 million.

It is considered that the range of reasonably possible outcomes in relation to the discount rate used could be +/-50 bps and as a result the fair value of the assets could materially diverge from management's estimate.

3. 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 function is made up of the Executive Directors and other senior 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 (see glossary), 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 (see note 5). 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 2019				31 December 2018 (restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Net income[1]	**108.5**	**45.6**	**13.3**	**167.4**	93.6	37.1	11.2	141.9
Segment adjusted EBITDA	**34.0**	**(10.3)**	**(12.5)**	**11.2**	24.6	(5.7)	(6.8)	12.1
Product development				**(26.4)**				(24.5)
Corporate costs				**(12.3)**				(11.0)
Adjusted EBITDA				**(27.5)**				(23.4)
Depreciation and amortisation				**(14.9)**				(12.5)
Share-based payments and social security costs				**(8.0)**				(8.6)
Foreign exchange loss				**—**				(0.4)
Exceptional items (note 5)				**(34.3)**				(5.9)
Operating loss				**(84.7)**				(50.8)

1. Net income is also referred to as "Revenue".

Net income by type

In addition to the segmental reporting of performance under IFRS 8, the table below sets out net income by its type:

	31 December 2019 £m	31 December 2018 £m
Transaction fees	**121.2**	112.9
Servicing fees	**30.4**	24.9
Net investment income:	**10.5**	—
– *Investment income*	*28.3*	—
– *Investment expense*	*(7.9)*	—
– *Fair value (losses)/gains*	*(9.9)*	—
Other fees	**5.3**	4.1
Net income	**167.4**	141.9

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

4. Operating expenses

	31 December 2019 £m	31 December 2018 (restated) £m
Depreciation	**7.8**	6.4
Amortisation	**7.1**	6.1
Rental income and other recharges	**–**	(0.8)
Operating lease rentals:		
– Other assets	**0.1**	0.1
– Land and buildings	**0.1**	0.1
Employment costs (including contractors)	**90.3**	79.2
Marketing costs (excluding employment costs)	**66.5**	57.8
Data and technology	**9.4**	9.2
Loan repurchase charge	**6.5**	2.6
Foreign exchange loss	**–**	0.4
Impairment of goodwill (exceptional)	**29.0**	–
Impairment of intangible and tangible assets (exceptional)	**5.3**	–
IPO adviser costs (exceptional)	**–**	5.9
Other expenses	**30.0**	25.7
Total operating expenses	**252.1**	192.7

Auditors' remuneration

	31 December 2019 £m	31 December 2018 £m
Audit fees		
– Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	**0.3**	0.2
– Fees payable to the Company's auditors and its associates for the statutory audit of the financial statements of subsidiaries of the Company	**0.2**	0.2
Total audit fees	**0.5**	0.4
Assurance-related fees		
– Audit-related assurance services	**0.1**	0.1
– Total other assurance services	**0.2**	–
Total assurance-related fees	**0.3**	0.1
Non-audit fees		
– Tax compliance services	**–**	0.1
– Reporting accountant fees in connection with the IPO	**–**	2.0
Total non-audit fees	**–**	2.1

5. Exceptional items

	31 December 2019 £m	31 December 2018 £m
Impairment of non-financial assets	**34.3**	–
IPO adviser costs	**–**	5.9
Total	**34.3**	5.9

Impairment of non-financial assets in Germany and the Netherlands: In the year as part of the annual goodwill impairment assessment it was identified that goodwill in relation to the Continental European business was carried at a value higher than its value in use driven by a reduction in the future discounted cash flows of the Business Unit. As a result an impairment was recognised of £29.0 million. Additionally the Group assessed the tangible and intangible fixed assets of the German and Dutch businesses as part of the cash-generating unit and an impairment of £0.7 million and £4.6 million respectively was recognised. There was no cash movement in relation to the impairment.

5. Exceptional items continued

IPO adviser costs: In 2018 sponsor and adviser costs associated with the IPO were recorded as exceptional items. The total costs associated with the IPO were £15.0 million, of which £5.9 million were expensed to the income statement with the remaining £9.1 million offset against share premium as is required for costs directly associated with the primary offering.

Cash flows in relation to the exceptional IPO costs amounted to £15.0 million in 2018 and there were no additional profit and loss charges or cash outflows in 2019.

6. Employees

The average monthly number of employees (including Directors) during the year was:

	2019 Number	2018 Number
Product and technology	**252**	232
Operations, support and administrative	**803**	722
	1,055	954

In addition to the employees above, the average monthly number of contractors during the year was 110 (2018: 50).

Employment costs (including Directors' emoluments) during the year were:

	31 December 2019 £m	31 December 2018 £m
Wages and salaries	**80.1**	68.7
Social security costs	**7.8**	7.0
Pension costs	**1.0**	0.5
Share-based payments	**8.0**	8.6
	96.9	84.8
Contractor costs	**7.7**	5.2
Less: capitalised development costs	**(14.3)**	(10.8)
Employment costs net of capitalised development costs	**90.3**	79.2

7. Net finance costs

	31 December 2019 £m	31 December 2018 (restated) £m
Interest receivable	**1.8**	0.9
Total finance income	**1.8**	0.9
Interest on lease liabilities	**(1.2)**	(1.0)
Total finance costs	**(1.2)**	(1.0)
Net finance income	**0.6**	(0.1)

8. 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% (2018: 19.00%).

	31 December 2019 £m	31 December 2018 £m
Current tax		
UK corporation taxation	**0.5**	–
Research and development tax credit	**–**	(1.4)
Total current tax	**0.5**	(1.4)
Total tax charge/(credit)	**0.5**	(1.4)

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

8. Income tax continued

The Group continues to be in a loss-making position; however, credits receivable in respect of UK research and development expenditure credits ("RDEC") are subject to UK corporation tax. The above tax charge represents the amount of tax deducted from the RDEC receivable for the years 2017 to 2019. In the prior year, the research and development tax credit of £1.4 million was claimed under the Small and Medium Enterprise R&D tax relief.

The Group charge/(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 charge/(credit) for the year

	31 December 2019 £m	31 December 2018 (restated) £m
Loss before taxation	**(84.2)**	(50.9)
Taxation on loss at 19.00% (2018: 19.00%)	**(16.0)**	(9.6)
Effects of:		
Research and development	**0.5**	(1.4)
Effect of foreign tax rates	**(2.4)**	(2.7)
Non-deductible expenses	**0.8**	1.5
Temporary differences not recognised	**10.7**	10.8
Impairment charge (exceptional)	**6.9**	—
Tax charge/(credit)	**0.5**	(1.4)

The Group is 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 (30.5%) and the Netherlands (25%). The effective tax rate for the year was (0.6%) (2018: 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 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.

Deferred tax assets and liabilities

	31 December 2019 £m	31 December 2018 (restated) £m
Property, plant and equipment	**(1.9)**	(2.5)
Carry forward losses	**61.5**	45.9
Deferred stock options	**1.0**	0.1
US R&D credit	**0.4**	—
Unrecognised deferred tax asset	**61.0**	43.5

Following the application of IFRS 16, deferred tax assets/liabilities in relation to capital allowances have been restated.

The Group has unrelieved tax losses of £248.0 million (2018: £182.3 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 certainty of suitable taxable 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.

9. Loss per share

Basic loss per share amounts are calculated by dividing the loss 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 2019 £m	31 December 2018 (restated) £m
Loss for the year	**(84.7)**	(49.5)
Weighted average number of ordinary shares in issue (million)	**347.6**	271.3
Basic and diluted loss per share	**(24.4)p**	(18.2)p
Loss for the year before exceptional items	**(50.4)**	(43.6)
Weighted average number of ordinary shares in issue (million)	**347.6**	271.3
Adjusted basic and diluted loss per share	**(14.5)p**	(16.1)p

10. Goodwill

	Total £m
Cost and carrying amount	
At 1 January 2018	41.3
Exchange differences	1.0
At 31 December 2018	42.3
At 1 January 2019	42.3
Impairment charge (note 5)	(29.0)
Exchange differences	(2.0)
At 31 December 2019	**11.3**

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 the German and Dutch businesses (Funding Circle Continental Europe or "FCCE") and its subsidiaries to which goodwill is attached. The goodwill associated with each CGU is shown below.

	31 December 2019 £m	31 December 2018 £m
FCUSA	**11.3**	11.7
FCCE	**–**	30.6
Total	**11.3**	42.3

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 value-in-use calculations. The fair value review also took into account the current market value of the Group segmented against each CGU.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

10. Goodwill continued

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:

- income growth at a compound annual growth rate of 26.5% and 10.9% for FCUSA and FCCE respectively (2018: 45% and 73%);
- cost growth at a compound rate of 13.3% and (3.1%) for FCUSA and FCCE respectively (2018: 27% and 54%);
- pre-tax discount rate of 12.0% and 11.9% for FCUSA and FCCE respectively (2018: 11.8% and 13.3%); and
- revenues beyond the five-year period are extrapolated using an estimated growth rate of 2.0% for both CGUs (2018: 2.0%).

The above assumptions are based on historical trends and future market expectations.

The review identified impairment of £29.0 million to the goodwill of FCCE as the value in use calculated was below the carrying amount. There are no further CGUs for which management considers a reasonably possible change in a key assumption would give rise to an impairment.

The cumulative amount of impairment losses in relation to goodwill is £29.0 million (2018: £nil).

11. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Cost				
At 1 January 2018	23.0	0.6	1.3	24.9
Exchange differences	0.8	–	–	0.8
Additions	10.8	0.2	–	11.0
Reclassification	0.5	–	–	0.5
Disposals	(0.9)	–	–	(0.9)
At 31 December 2018	34.2	0.8	1.3	36.3
At 1 January 2019	34.2	0.8	1.3	36.3
Exchange differences	(0.5)	–	(0.2)	(0.7)
Additions	14.3	0.2	–	14.5
Reclassification	–	–	–	–
Disposals	(0.7)	–	–	(0.7)
At 31 December 2019	**47.3**	**1.0**	**1.1**	**49.4**
Accumulated amortisation				
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
At 1 January 2019	13.4	0.3	1.1	14.8
Exchange differences	(0.1)	–	(0.1)	(0.2)
Reclassification	(0.3)	0.3	–	–
Charge for the year	6.9	0.2	–	7.1
Impairment	4.6	–	–	4.6
Disposals	(0.5)	–	–	(0.5)
At 31 December 2019	**24.0**	**0.8**	**1.0**	**25.8**
Carrying amount				
At 31 December 2019	**23.3**	**0.2**	**0.1**	**23.6**
At 31 December 2018	20.8	0.5	0.2	21.5

12. Property, plant and equipment, right-of-use assets and lease liabilities

As disclosed in note 1, the Group has adopted IFRS 16, effective from 1 January 2019, using the fully retrospective approach and comparative information has therefore been restated. The Group has right-of-use assets which comprise property leases held by the Group. Information about leases for which the Group is a lessee is presented below.

Analysis of property, plant and equipment between owned and leased assets

	31 December 2019 £m	31 December 2018 (restated) £m
Property, plant and equipment (owned)	**5.1**	5.3
Right-of-use assets	**33.9**	19.9
	39.0	25.2

Reconciliation of amount recognised in the balance sheet

	Leasehold improvements £m	Computer equipment £m	Furniture and fixtures £m	Right-of-use assets (property) £m	Total £m
Cost					
At 1 January 2018 (restated)	4.3	2.9	1.6	32.1	40.9
Additions	1.0	1.1	0.6	1.3	4.0
Exchange differences	–	–	–	0.4	0.4
At 31 December 2018 (restated)	5.3	4.0	2.2	33.8	45.3
At 1 January 2019	5.3	4.0	2.2	33.8	45.3
Reclassification	(0.2)	–	–	0.2	–
Disposals	(0.5)	–	(0.4)	(5.3)	(6.2)
Additions	1.4	0.9	1.2	21.1	24.6
Exchange differences	(0.2)	(0.1)	–	(0.4)	(0.7)
At 31 December 2019	**5.8**	**4.8**	**3.0**	**49.4**	**63.0**
Accumulated depreciation					
At 1 January 2018 (restated)	1.0	2.0	1.1	9.4	13.5
Charge for the year	0.7	1.0	0.4	4.3	6.4
Exchange differences	–	–	–	0.2	0.2
At 31 December 2018 (restated)	1.7	3.0	1.5	13.9	20.1
At 1 January 2019	1.7	3.0	1.5	13.9	20.1
Disposals	(0.3)	–	(0.4)	(3.7)	(4.4)
Charge for the year	1.0	0.9	0.4	5.5	7.8
Impairment	0.6	0.1	–	–	0.7
Exchange differences	–	–	–	(0.2)	(0.2)
At 31 December 2019	**3.0**	**4.0**	**1.5**	**15.5**	**24.0**
Carrying amount					
At 31 December 2019	**2.8**	**0.8**	**1.5**	**33.9**	**39.0**
At 31 December 2018 (restated)	3.6	1.0	0.7	19.9	25.2

Lease liabilities

Amounts recognised on the balance sheet were as follows:

	31 December 2019 £m	31 December 2018 (restated) £m
Current	**8.5**	5.0
Non-current	**29.8**	20.1
Total	**38.3**	25.1

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

12. Property, plant and equipment, right-of-use assets and lease liabilities continued

Lease liabilities continued

Amounts recognised in the statement of comprehensive income were as follows:

	31 December 2019 £m	31 December 2018 (restated) £m
Depreciation charge of right-of-use assets (property)	**5.5**	4.3
Interest expense (included in finance costs)	**1.2**	1.0
Expense relating to short-term leases and leases of low-value assets	**0.2**	0.2

The total cash outflow for leases (excluding short-term and low-value leases) in 2019 was £7.1 million (2018: £3.8 million).

A maturity analysis illustrating the undiscounted contractual cash flows of lease liabilities is included within the liquidity risk disclosure within note 17.

As at 31 December 2019 the potential future undiscounted cash outflows that have not been included in the lease liability due to lack of reasonable certainty the lease extension options might be exercised amounted to £nil (2018: £nil).

13. Investment in SME loans

	31 December 2019 £m	31 December 2018 £m
Non-current		
Investment in SME loans (other) – amortised cost	**1.7**	0.3
Total non-current	**1.7**	0.3
Current		
Investment in SME loans (curing) – FVTPL	**—**	4.7
Investment in SME loans (warehouse) – FVTPL	**342.0**	—
Investment in SME loans (securitised) – FVTPL	**366.6**	—
Total current	**708.6**	4.7
Total	**710.3**	5.0

14. Trade and other receivables

	31 December 2019 £m	31 December 2018 £m
Trade receivables	**0.9**	1.2
Other receivables[1]	**17.3**	6.5
Prepayments	**4.2**	6.0
Accrued income	**7.3**	3.6
Rent and other deposits	**3.9**	5.7
	33.6	23.0

1. Includes £7.5 million in relation to cash and liquidity reserves held in the UK securitisation vehicle which will unwind to make payments to bond holders in future.

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 £3.3 million of rental deposits (2018: £2.9 million) in respect of the Group's property leases which expire over the next five years.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

15. Trade and other payables

	31 December 2019 £m	31 December 2018 (restated) £m
Trade payables	**3.2**	2.8
Other taxes and social security costs	**3.1**	5.5
Other creditors	**1.7**	0.9
Accruals	**11.7**	10.1
	19.7	19.3

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

16. Provisions

	Dilapidation £m	Loan repurchase £m	Other £m	Total £m
At 1 January 2018	0.4	2.5	0.8	3.7
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
Reclassification	—	0.5	(0.5)	—
Additional provision	0.1	6.5	0.7	7.3
Amount utilised	—	(7.2)	(0.7)	(7.9)
At 31 December 2019	**0.9**	**2.9**	**0.2**	**4.0**

	31 December 2019 £m	31 December 2018 £m
Current	**3.1**	3.8
Non-current	**0.9**	0.8
	4.0	4.6

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.

Loan repurchase 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 commitments, the Group is entitled to the excess returns or additional income which is recorded as other fees.

Under IFRS 9, the Group is required to provide for these loan repurchases under the expected credit loss ("ECL") model.

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 loan repurchase 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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

16. Provisions continued

Loan repurchase provision continued

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
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)
At 31 December 2018	2.1	0.8	0.2	3.1
Provision against new loans originated	2.8	–	–	2.8
Provision against loans transferred from performing	(3.6)	(0.1)	7.4	3.7
Amounts utilised	–	–	(7.2)	(7.2)
Loans repaid	(0.5)	–	–	(0.5)
Change in probability of default	1.3	0.1	(0.4)	1.0
At 31 December 2019	**2.1**	**0.8**	**–**	**2.9**

At 31 December 2018	Expected credit loss coverage %	Basis for recognition of loan repurchase provision	Gross assets of external parties subject to loan repurchase provision £m	Loan repurchase provision £m
Performing (due in 30 days or less)	1	12-month ECL	220.6	2.1
Underperforming (31–90 days overdue)	67	Lifetime ECL	1.2	0.8
Non-performing (90+ days overdue)	100	Lifetime ECL	0.2	0.2
		Total	222.0	3.1

At 31 December 2019	**Expected credit loss coverage %**	**Basis for recognition of loan repurchase provision**	**Gross assets of external parties subject to loan repurchase provision £m**	**Loan repurchase provision £m**
Performing (due in 30 days or less)	**5**	**12-month ECL**	**40.6**	**2.1**
Underperforming (31–90 days overdue)	**81.3**	**Lifetime ECL**	**0.9**	**0.8**
Non-performing (90+ days overdue)	**100**	**Lifetime ECL**	**–**	**–**
		Total	**41.5**	**2.9**

The percentages applied above are based on the Group's past experience of delinquencies and loss trends, as well as forward-looking information in the form of macroeconomic scenarios governed by an impairment committee, which considers macroeconomic forecasts such as changes in interest rates, GDP and inflation. Macroeconomic scenarios are probability weighted within the model and include scenarios of: i) low losses, a high GDP, market confidence and political stability; ii) normal losses based on baseline economic conditions; iii) high losses with manufacturing and political instability; iv) very high losses with a stress scenario reflecting a one-in-twenty-year event.

The expected credit loss model includes actual defaults determined by monthly cohort, adjusted for forecasted lifetime cumulative default rates. It applies the latest default curve and lifetime default rates tailored to each cohort based on the expected lifetime default rate. When actual defaults trend higher than the curve, the forecast default curve is shifted upwards to align with actual performance. The items that the model is most sensitive to are delinquencies and default rates. Management has applied an estimated weighted average lifetime default rate across cohorts of 12.9%. See note 2 for a sensitivity analysis on the impact of a change in default rates. At 31 December 2019, there is only one portfolio of loans.

The maximum exposure the Group might have to pay at the balance sheet date if 100% of eligible loans were required to be bought back would be £41.5 million (2018: £222.0 million). This would be dependent on the timing of any eligible loans defaulting. Repayments of eligible loans are no longer reinvested and therefore the final loan is due to expire in December 2024, along with the associated financial guarantees.

17. 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; and
- market risk (including foreign exchange risk, interest rate risk and other price 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;
- trade and other payables;
- bank borrowings;
- bonds; and
- lease liabilities.

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 2019:

Assets	Fair value through profit and loss £m	Amortised cost £m	Total £m
Investment in SME loans (other)	–	1.7	1.7
Investment in SME loans (curing)	–	–	–
Investment in SME loans (warehouse)	342.0	–	342.0
Investment in SME loans (securitised)	366.6	–	366.6
Trade and other receivables	0.2	21.9	22.1
Cash and cash equivalents	46.0	118.5	164.5
	754.8	142.1	896.9

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Total £m
Trade and other payables	–	(4.9)	(4.9)
Bank borrowings	–	(265.8)	(265.8)
Bonds	(16.0)	(332.7)	(348.7)
Lease liabilities	–	(38.3)	(38.3)
	(16.0)	(641.7)	(657.7)

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

17. Financial risk management continued

Principal financial instruments continued

Categorisation of financial assets and financial liabilities continued

The tables show the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2018:

Assets	Fair value through profit and loss £m	Amortised cost £m	Total £m
Investment in SME loans (other)	—	0.3	0.3
Investment in SME loans (curing)	4.7	—	4.7
Trade and other receivables	—	13.4	13.4
Cash and cash equivalents	150.0	183.0	333.0
	154.7	196.7	351.4

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Total £m
Trade and other payables	—	(3.7)	(3.7)
Lease liabilities	—	(25.1)	(25.1)
	—	(28.8)	(28.8)

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, investment in SME loans (other) 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.

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 assets 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 SME loans) 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 investment in SME loans (curing). These are typically held for two to three days before being transferred to independent investors at the principal amount.

17. Financial risk management continued

Financial instruments measured at fair value continued

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 2019	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	Total £m
Financial assets				
Trade and other receivables	–	0.2	–	0.2
Investment in SME loans (warehouse)	–	–	342.0	342.0
Investment in SME loans (securitised)	–	–	366.6	366.6
Cash and cash equivalents	46.0	–	–	46.0
	46.0	0.2	708.6	754.8
Financial liabilities				
Bonds	–	–	(16.0)	(16.0)
	–	–	(16.0)	(16.0)

	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				
Investment in SME loans (curing)	–	4.7	–	4.7
Cash and cash equivalents	150.0	–	–	150.0
	150.0	4.7	–	154.7

Loan investments held under cure period were originated during the last week of the respective reporting periods. As a result fair value is assumed to be equal to the outstanding principal amount.

The fair value of investment in SME loans (warehouse) has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (warehouse) was £342.0 million at 31 December 2019 (2018: £nil).

The fair value of investment in SME loans (securitised) represents loan assets in the securitisation vehicles and has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (securitised) was £366.6 million at 31 December 2019 (2018: £nil).

Bonds represent the unrated tranches of bond liabilities measured at fair value through profit and loss (the rated tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £16.0 million at 31 December 2019 (2018: £nil).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

17. Financial risk management continued

Financial instruments measured at fair value continued

The most relevant significant unobservable input relates to the discount rates applied to the fair value calculation, details of which are set out below.

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (warehouse)	342.0	Discount rate	US 7.8% UK 6.3%	A change in the discount rate by 50 bps would increase/decrease fair value by £2.8 million.
Investment in SME loans (securitised)	366.6	Discount rate	US 6.8% UK 5.9%	A change in the discount rate by 50 bps would increase/decrease fair value by £2.7 million.
Bonds (unrated)	(16.0)	Discount rate	11.6%	A change in the discount rate by 50 bps would increase/decrease fair value by £0.3 million.

Fair value movements on investment in SME loans (warehouse), investment in SME loans (securitised) and bonds (unrated) are recognised through the profit and loss account in net investment income as part of net income.

A reconciliation of the movement in level 3 financial instruments is shown as follows:

	Investment in SME loans (warehouse) £m	Investment in SME loans (securitised) £m	Bonds (unrated) £m
At 1 January 2019	—	—	—
Additions	673.4	—	(13.1)
Securitisations	(292.2)	414.5	—
Repayments	(32.5)	(37.4)	0.7
Net loss on the change in fair value of financial instruments at fair value through profit and loss during the year	(0.5)	(5.8)	(3.6)
Foreign exchange loss	(6.2)	(4.7)	—
At 31 December 2019	**342.0**	**366.6**	**(16.0)**

17. 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 2019 £m	31 December 2018 £m
Non-current		
Investment in SME loans (other)	1.7	0.3
Current		
Investment in SME loans (curing)	–	4.7
Investment in SME loans (warehouse)	342.0	–
Investment in SME loans (securitised)	366.6	–
Trade and other receivables:		
– Trade receivables	0.9	1.2
– Other receivables	17.3	6.5
– Rent and other deposits	3.9	5.7
Cash and cash equivalents	164.5	333.0
Total gross credit risk exposure	896.9	351.4
Less bank borrowings and bond liabilities	(614.5)	–
Total net credit risk exposure	282.4	351.4

In addition the Group is subject to financial guarantees it has issued to buy back loans detailed in the loan repayment provision in note 16. The Group's maximum exposure to credit risk on this financial guarantee were every eligible loan required to be bought back would be £41.5 million (2018: £222.0 million).

Investment in SME loans (curing) 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.

Investment in SME loans (warehouse) and investment in SME loans (securitised) relate to the underlying pool of SME loans in both the warehouse and securitisation vehicles. Whilst there is credit risk from the loans defaulting, these SME loans and the associated bank debt or third party bonds are held within bankruptcy remote vehicles. If the SME loans were to all default, then the bank debt or third party bonds do not receive their money back. Therefore the overall exposure to the Group for these investments is the Group's net investment in the SME loans which is after taking account of the bank debt and third party bonds.

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/A- rated: £112.6 million (2018: £30.1 million) A+ or better: £51.1 million (2018: £299.9 million) and below A- rated: £0.8 million (2018: £nil).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

17. Financial risk management continued

Financial risk factors continued

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 financial resources 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.

The maturity analysis of financial instruments at 31 December 2019 and 31 December 2018 is as follows:

At 31 December 2019	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting[2] £m	Carrying amount £m
Financial liabilities							
Trade and other payables	**(4.9)**	**—**	**—**	**—**	**(4.9)**	**—**	**(4.9)**
Bank borrowings	**(265.8)**	**—**	**—**	**—**	**(265.8)**	**—**	**(265.8)**
Bonds	**(43.4)**	**(108.8)**	**(219.8)**	**(0.5)**	**(372.5)**	**23.8**	**(348.7)**
Loan repurchase provision[1]	**(2.9)**	**—**	**—**	**—**	**(2.9)**	**—**	**(2.9)**
Lease liabilities	**(2.1)**	**(6.4)**	**(28.8)**	**(5.7)**	**(43.0)**	**4.7**	**(38.3)**
	(319.1)	**(115.2)**	**(248.6)**	**(6.2)**	**(689.1)**	**28.5**	**(660.6)**

At 31 December 2018 (restated)	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting[2] £m	Carrying amount £m
Financial liabilities							
Trade and other payables	(3.7)	—	—	—	(3.7)	—	(3.7)
Loan repurchase provision[1]	(3.1)	—	—	—	(3.1)	—	(3.1)
Lease liabilities	(1.5)	(4.6)	(18.3)	(3.5)	(27.9)	2.8	(25.1)
	(8.3)	(4.6)	(18.3)	(3.5)	(34.7)	2.8	(31.9)

1. Financial guarantees provided for in the loan repurchase provision are allocated to the earliest period in which the guarantee could possibly be called.
2. Included within the impact of discounting on bonds is £2.7 million of deferred bond issuance costs.

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 1.

During the year, the Group entered into revolving credit facility agreements of up to £220 million and $180 million for the Group's UK and US ABS programmes respectively. As at 31 December 2019 the amounts drawn in the UK and US totalled £144.8 million and $159.8 million, interest is payable on the borrowings in the UK and the US at 1.50% plus one-month Libor and 2.5% plus the three-month commercial paper rate respectively. The Group may draw down on its borrowing facilities on the balance sheet in order to fund the purchase of SME loans for the warehouse.

The Group has undrawn committed borrowing facilities available at 31 December 2019 of £90.5 million (2018: £nil) which are due to expire in March 2021 in the US and in the UK no further drawdowns can be made under this facility from May 2020 and must be repaid by June 2028. The use of the facilities is restricted to the purchase of loans for the purpose of securitisation.

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 positions 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.

17. Financial risk management continued

Financial risk factors continued

Market risk continued

b) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk in relation to financial liabilities through drawn committed borrowing facilities and on bonds and on financial assets through investment in SME loans.

Non-trading interest rate risk

The Group's interest risk on financial instruments is limited to interest receivable on loan note investments, cash and cash equivalent balances and interest on bank borrowings. The maturities of financial instruments subject to interest rate risk are as follows:

	Less than 3 months		Between 3 months and 1 year		Between 1 and 5 years	
At 31 December	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Fixed rate						
Investment in SME loans (other)	**–**	–	**–**	–	**1.7**	0.3
Investment in SME loans (curing)	**–**	4.7	**–**	–	**–**	–
Investment in SME loans (warehouse)[1]	**0.3**	–	**11.5**	–	**330.2**	–
Investment in SME loans (securitised)[1]	**0.6**	–	**4.9**	–	**361.1**	–
Bonds[1]	**–**	–	**–**	–	**(128.9)**	–
Floating rate						
Cash and cash equivalents	**164.5**	333.0	**–**	–	**–**	–
Bank borrowings	**(265.8)**	–	**–**	–	**–**	–
Bonds	**–**	–	**–**	–	**(219.8)**	–
	(100.4)	337.7	**16.4**	–	**344.3**	0.3

1. The bonds, investment in SME loans (warehouse) and investment in SME loans (securitised) are classified as current on the balance sheet, representing that the holding in residual junior notes and investment in SME loans in the warehouse by the Group are held to sell, and upon sale the Group would expect to deconsolidate the related assets of the securitisation vehicles. The above table represents the contractual maturities.

There are no financial assets which are held for a period of over five years.

Interest rate risk sensitivity analysis – non-trading interest (fixed rate)

Interest on loan note investments including investment in SME loans (other), investments in SME loans (curing), investments in SME loans (warehouse), investment in SME loans (securitised) and bond liabilities (in the US) is fixed until the maturity of the investment, and is not impacted by market rate changes. 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. The Directors believe that any reasonable increase in the Libor rate would not significantly impact the Group.

Interest on bank borrowings is subject to movements in Libor and the three-month commercial paper rate. However, the Group has mitigated the risk of increases in interest rates through the use of interest rate caps. A 0.5% increase in Libor would result in an increase of annual interest paid on facilities drawn to their current levels of £7.2 million.

Interest on bonds (in the UK) is subject to movements in SONIA. However, the Group has mitigated the risk of increases in interest rates through the use of interest rate caps. A 0.5% increase in SONIA would result in an increase of projected annual interest expense for the year ended 31 December 2020 of £0.8 million.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

17. Financial risk management continued

Financial risk factors continued

Market risk continued

(b) Cash flow and fair value interest rate risk continued

Instruments used by the Group

Interest rate caps mitigate risk of increases in floating rate interest on borrowing facilities used to fund the origination of loans for the securitisation warehouses.

All derivatives are held at fair value through profit and loss with movements in the fair value being recognised in fair value gains/(losses) within net investment income. Derivatives are not designated into formal hedging relationships within the Group.

At 31 December 2019	Interest rate cap USA warehouse	Interest rate cap UK warehouse	Interest rate cap UK securitisation
Notional amount	$180m	£200m	£177m[1]
Underlying	USD Libor	GBP Libor	GBP SONIA
Strike rate	4.0%	2.5%	2.0%
Maturity	June 2021	June 2020	July 2024
Fair value	—	—	£0.2m

1. The UK securitisation interest rate cap notional is set on a declining basis in line with the expected repayment of bonds subject to floating rate SONIA benchmark.

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 Group assessed the 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 senior 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 year end for a 5% change in foreign currency rates. The sensitivity analysis excludes quasi-equity loans to foreign operations within the Group.

The Group's sensitivity to fluctuations in foreign currencies is related to the US dollar and euro amounts held in the Parent Company.

The sensitivity analysis resulted in £nil impact on income statement or equity from an appreciation or depreciation in pound sterling in 2019 (2018: £nil).

17. Financial risk management continued

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.

Sources of estimation uncertainty and critical judgements that may result in a material adjustment in future periods are outlined in note 2.

18. Share capital

	31 December 2019 Number	31 December 2019 £	31 December 2018 Number	31 December 2018 £
Called up, allotted and fully paid				
Ordinary shares of £0.001	**348,399,274**	**348,399**	346,033,078	346,034

During 2019, the Company issued 2,366,196 ordinary shares of £0.001 ranking pari passu with ordinary shares in issue (2018: 7,494,589) in connection with employee share schemes, giving rise to total share premium of £0.5 million (2018: £1.0 million).

Included in the total number of ordinary shares outstanding above are 2,282,239 (2018: 5,043,359) shares held by the Group's Employee Benefit Trust.

19. Share premium account

	2019 £m	2018 £m
At 1 January	**291.8**	278.0
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	**0.5**	1.0
At 31 December	**292.3**	291.8

20. Foreign exchange reserve

	£m
At 1 January 2018	13.3
Exchange difference on translating the net assets of foreign operations	2.4
At 31 December 2018	15.7
Exchange difference on translating the net assets of foreign operations	(7.7)
At 31 December 2019	**8.0**

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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

21. Retained earnings/(accumulated losses)

	£m
At 1 January 2018 (restated)	(154.4)
Capital reduction	278.1
Transfer of share option costs	13.0
Loss for the year	(49.5)
At 31 December 2018 (restated)	87.2
Capital reduction	—
Transfer of share option costs	4.0
Loss for the year	(84.7)
At 31 December 2019	**6.5**

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.

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.

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 with the exception of LTIP Awards granted to Executive Directors which are 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 granted to employees, excluding Executive Directors, currently vest subject to continued service only ("Time Based Vesting") in accordance with a vesting schedule set at grant.

LTIP Awards granted to Executive Directors vest at the end of three years subject to achievement of performance conditions. Further details are shown in the Remuneration Report.

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).

22. Share-based payment continued

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.

ESS Shares with "shadow" Unapproved Options

To subscribe for the ESS Shares, employees had to give up certain employment rights. ESS Shares were 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 was 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 differed depending on the underlying share.

If the performance target was met, the participants would 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 had a right of redemption – the employee had 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 depended on the number of ESS Shares granted.

The ESS Shares were each issued in conjunction with a "shadow" Unapproved Option. The Unapproved Option could be exercised if the relevant enterprise value hurdle was not met upon an exit event. Both the ESS Shares and the "shadow" Unapproved Options vested 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 and were converted into ordinary shares on IPO, with the shadow options lapsing.

Growth Shares with "shadow" Unapproved Options

Growth Shares were 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 was 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 differed depending on the underlying share.

If this performance target was met, the participants would 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 were each issued in conjunction with a "shadow" Unapproved Option. The Unapproved Option could be exercised if the applicable enterprise value hurdle is not met upon an exit event. Both the Growth Shares and the "shadow" Unapproved Options vested 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. All Growth Shares were converted into ordinary shares on IPO, and the related "shadow" options lapsed.

Charge for the year

Included in operating expenses of the Group is a charge for share-based payments and associated social security costs of £8.0 million (2018: £8.6 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 2019

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		LTIP Awards		US Options Scheme		Total	
	Number and WAEP[1]		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 year	–	–	4,716,312	0.362	–	–	1,418,196	–	2,137,787	0.857	8,272,295	0.428
Exercised during the year	(2,605,831)	0.027	(3,490,423)	0.180	–	–	–	–	(1,398,335)	0.373	(7,494,589)	0.163
Forfeited during the year	(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

	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 2019	630,912	0.027	9,093,840	0.327	–	–	1,418,196	–	6,380,111	0.406	17,523,059	0.319
Granted during the year	–	–	–	–	–	–	8,840,545	–	–	–	8,840,545	–
Exercised during the year	(149,600)	0.027	(1,059,368)	0.386	–	–	(450,492)	–	(867,752)	0.338	(2,527,212)	0.279
Forfeited during the year	–	–	(719,138)	0.535	–	–	(1,295,157)	–	(906,152)	0.373	(2,920,447)	0.247
Outstanding at 31 December 2019	**481,312**	**0.027**	**7,315,334**	**0.298**	**–**	**–**	**8,513,092**	**–**	**4,606,207**	**0.426**	**20,915,945**	**0.199**

1. Weighted average exercise price.

The following table summarises information about the share awards outstanding at 31 December 2019:

	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	–	–	2,728,326	8.4	8,513,092	8.2	273,095	8.6	11,514,513	8.2
£0.009–£0.176	481,312	3.6	797,981	2.1	–	–	35,893	0.9	1,315,186	2.6
£0.177–£0.471	–	–	3,358,705	8.1	–	–	3,368,358	6.0	6,727,063	7.0
£0.472–£1.75	–	–	430,322	8.5	–	–	928,861	7.2	1,359,183	7.6
	481,312	**3.6**	**7,315,334**	**7.6**	**8,513,092**	**8.2**	**4,606,207**	**6.3**	**20,915,945**	**7.5**

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

2. Weighted average remaining contractual life.

22. Share-based payment continued

Unapproved Options Scheme

There have been no Unapproved Options granted since IPO in 2018. The weighted average fair values of options granted under the Unapproved Options Scheme and the US Options Scheme ranged between £0.73 and £1.80 per option respectively in the previous year. 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
Share price (various times during the year)	£1.89
Exercise price	£nil–£0.44
Expected life	4 years
Expected volatility	48%
Risk-free interest rate (between)	0.93%–1.02%
Dividend yield	Nil
Forward exchange rate – US Options (between)	0.769

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 to employees excluding Executive Directors. The fair value of Executive Director share options is estimated at the grant date using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted.

	31 December 2019
Strike price	**£4.40**
Share price on grant date	**£1.80**
Expected life	**2.5 years**
Expected volatility	**69%**
Risk-free interest rate	**1%**
Dividend yield	**Nil**

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Group considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

23. Notes to the consolidated statement of cash flows

Cash outflow from operations

	31 December 2019 £m	31 December 2018 (restated) £m
Loss before taxation	(84.2)	(50.9)
Adjustments for		
Depreciation of property, plant and equipment	7.8	6.4
Amortisation of intangible assets	7.1	6.1
Impairment of goodwill	29.0	—
Impairment of intangible and tangible assets	5.3	—
Interest receivable	(1.8)	(0.9)
Interest payable	1.2	1.0
Non-cash employee benefits expense – share-based payments and associated social security costs	7.7	8.1
Fair value and other non-cash adjustments	9.9	—
Tax credit cash received	—	1.4
Movement in provisions	(0.4)	0.2
Other non-cash movements	(0.2)	—
Changes in working capital		
Movement in trade and other receivables	(9.1)	(8.1)
Movement in trade and other payables	0.7	6.1
Net cash outflow from operating activities	(27.0)	(30.6)

In 2018, total IPO adviser costs were £15.0 million, of which £5.9 million related to the secondary shares traded on admission and other costs attributable to the listing and £9.1 million related to the issuance of new shares. Both cash outflows were presented in net cash flow from financing activities but in recent discussions, the Financial Reporting Council has highlighted that the cash flow presentation of the £5.9 million in respect of the secondary shares and other costs did not satisfy the requirements of IAS 7 Statement of Cash Flows. Accordingly, these have been re-presented within net cash flow from operating activities. In addition to the above, the cash flow statement was restated for the impact of IFRS 16 Leases - refer to note 1.

23. Notes to the consolidated statement of cash flows continued

Cash and cash equivalents

	31 December 2019 £m	31 December 2018 £m
Cash and cash equivalents	**164.5**	333.0

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 cash of £1.2 million (2018: £0.4 million) which is restricted in use in the event of rental payment defaults and cash held in the securitisation SPVs of £14.2 million (2018: £nil) which has been collected for on payment to bond holders and is therefore restricted in its use.

At 31 December 2019, money market funds totalled £46.0 million (2018: £150.0 million).

Analysis of changes in liabilities from financing activities

	1 January 2018 (restated) £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	31 December 2018 (restated) £m
Lease liabilities	(23.9)	3.8	(2.7)	(2.3)	(25.1)
Liabilities from financing activities	**(23.9)**	**3.8**	**(2.7)**	**(2.3)**	**(25.1)**

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 1.

	1 January 2019 (restated) £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	31 December 2019 £m
Bank borrowings	—	(269.4)	3.6	—	(265.8)
Bonds	—	(349.4)	4.3	(3.6)	(348.7)
Lease liabilities	(25.1)	7.1	(0.3)	(20.0)	(38.3)
Liabilities from financing activities	**(25.1)**	**(611.7)**	**7.6**	**(23.6)**	**(652.8)**

24. Operating lease arrangements

As disclosed in notes 1 and 12, leases of low-value items or short-term leases continue to be treated as operating leases.

	31 December 2019 £m	31 December 2018 (restated) £m
Lease payments under operating leases recognised as an expense in the year	**0.2**	0.2

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 2019 £m	31 December 2018 (restated) £m
Within one year	**0.1**	0.2
In the second to fifth years inclusive	**—**	0.1
After five years	**—**	—
	0.1	0.3

Operating lease payments represent payments for lease assets that are individually considered low value.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2019

25. Dividends per share

No ordinary dividends were declared or paid in the current or previous financial years.

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 previous year, the Group entered into, and successfully won, a competition run by Nesta, a charitable organisation, with a prize of £100,000 paid to develop a finance modelling template that can be used by small businesses. An additional £200,000 of cash in relation to this prize was received in 2019. Ed Wray was a trustee of Nesta until December 2019.

Compensation of key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Group's key management personnel comprises the Global Leadership Team ("GLT"), which is made up of the Executive Directors and other senior management as defined in note 3 as the chief operating decision maker ("CODM") and the Non-Executive Directors of the Group.

	31 December 2019 £m	31 December 2018 £m
Salaries and short-term benefits	**4.2**	3.5
Equity-based compensation	**2.7**	1.8
Post-employment benefits	**0.1**	–
	7.0	5.3

Further details on Directors' remuneration are disclosed in the Remuneration Report in the Corporate Governance section of the Annual Report and Accounts on pages 80 to 83.

Transactions with other related parties

During the year the Group invested £13.9 million into entities accounted for as associates and subsequently received dividends of £0.1 million.

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. Subsequent events

In March 2020, the Group announced that it is reorganising the Continental European businesses of Germany and the Netherlands (the Developing Markets segment) and centralising the operations in London. The anticipated restructuring costs of this reorganisation are estimated at c.£5.0 million.

30. Interests in other entities

Investments 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 Midco Limited	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle USA, Inc.	USA	100%	Directly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Notes Program, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Marketplace, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Partners, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Securities, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Investor Funds, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Capital US, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Depositor US LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Partners, LP	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Diversified Income Fund, LP	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle CE GmbH	Germany	100%	Directly	Bergmannstraße 71/72, 10961 Berlin
Funding Circle Deutschland GmbH	Germany	100%	Indirectly	Bergmannstraße 71/72, 10961 Berlin
Funding Circle Connect GmbH	Germany	100%	Indirectly	Bergmannstraße 71/72, 10961 Berlin
FC Forderungsmanagement GmbH	Germany	100%	Indirectly	Bergmannstraße 71/72, 10961 Berlin
Juwel 182 VV UG	Germany	100%	Directly	Bergmannstraße 71/72, 10961 Berlin
Funding Circle Espana S.L.	Spain	100%	Indirectly	c/o Jorge Juan 30, 6A Madrid, 28 Madrid
Funding Circle Nederland B.V.	Netherlands	100%	Indirectly	Atrium, Strawinskylaan 3075, 4th Floor, 1077 ZX Amsterdam
Funding Circle Canada Inc.	Canada	100%	Indirectly	c/o TMF Canada Inc., 330 Bay Street, Suite 820, Toronto ON M5H 2S8
Funding Circle Capital Canada Inc.	Canada	100%	Indirectly	c/o TMF Canada Inc., 330 Bay Street, Suite 820, Toronto ON M5H 2S8

30. Interests in other entities continued

Investments in associates

Set out below are the associates of the Group as at 31 December 2019 which, in the opinion of the Directors, are material to the Group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Associate entity name	Place of incorporation	Proportion of ownership interest	Directly/ indirectly held	Registered office address
Funding Circle European SME Direct Lending Fund I[1]	Ireland	24%	Indirectly	70, Sir John Rogerson's Quay, Dublin 2, Ireland
Funding Circle UK SME Direct Lending Fund I[1]	Ireland	14%	Indirectly	70, Sir John Rogerson's Quay, Dublin 2, Ireland

1. Private sub-fund held via the Funding Circle ICAV, an Irish collective asset-management vehicle constituted as an umbrella fund with registered office address of 70, Sir John Rogerson's Quay, Dublin 2, Ireland.

The tables below provide summarised financial information for those associates that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not Funding Circle Holdings plc's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including modifications for differences in accounting policy. As these associates were incorporated during the year ended 31 December 2019, comparative information is not presented. While the Group holds less than 20% ownership in Funding Circle UK SME Direct Lending Fund I the Group considers that it has significant influence over the entity through representation on its board and so continues to account for it as an associate instead of a trade investment.

The associates are sub-funds which invest in SME loans, and the Group is exposed to default and prepayment risk with respect to the performance of the underlying loans in the associates, to the extent that the share of profit from associate may diminish. The table below illustrates the Group's maximum exposure to the investment in associate which represents the value on the Group balance sheet. The value of the investment is derived from net asset value statements from the sub-funds; however, being private these are not from observable market data, and therefore the fair value is considered to be aligned to the carrying value.

Summarised balance sheet	**Funding Circle European SME Direct Lending Fund I 31 December 2019 £m**	**Funding Circle UK SME Direct Lending Fund I 31 December 2019 £m**
Non-current assets	**8.3**	**4.9**
Current assets	**0.3**	**0.2**
Current liabilities	**—**	**—**
Non-current liabilities	**—**	**—**
Net assets	**8.6**	**5.1**

Reconciliation of associates' total shareholders' equity to carrying amount in Funding Circle Holdings plc's consolidated financial statements:

Opening net assets as at 1 January 2019	**—**	**—**
Shares issued in the year	**34.9**	**35.0**
Profit for the year	**0.4**	**0.8**
Other comprehensive income	**—**	**—**
Dividends paid in the year	**(0.2)**	**(0.2)**
Closing net assets as at 31 December 2019	**35.1**	**35.6**
Group's share in %	**24.4%**	**14.3%**
Group's share of net assets as at 31 December 2019	**8.6**	**5.1**
Accounting policy alignment	**(0.3)**	**(0.2)**
Group's carrying amount	**8.3**	**4.9**

30. Interests in other entities continued

Reconciliation of associates' total shareholders' equity to carrying amount in Funding Circle Holdings plc's consolidated financial statements: continued

Summarised statement of comprehensive income	Funding Circle European SME Direct Lending Fund I 2019 £m	Funding Circle UK SME Direct Lending Fund I 2019 £m
Gross income	**0.4**	**0.2**
Profit for the year	**0.1**	**0.1**
Other comprehensive income	**–**	**–**
Total comprehensive income	**0.1**	**0.1**
Dividends received from associates	**0.1**	**–**

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.

Consolidated structured entities: Small Business Origination Loan Trust 2019-3 DAC, Great Trinity Lending 1 DAC, Small Business Lending Trust 2019-A and Small Business Lending Grantor Trust 2019-A are consolidated structured warehouse and securitisation entities set up in the year which either hold SME loan assets in a warehouse awaiting sale to a securitisation entity or hold the portfolio of SME loans and issue bonds after securitisation has occurred.

The entities are bankruptcy remote special purpose vehicles and as such there is no requirement for the Group to provide financial support to the entities. The entities' activities are not governed by voting rights and the Group has assessed that it has power over the entities based on the purpose and design of the entity and ability to direct the relevant activities of the entity, the nature of the relationship with the entity and the size of its exposure to the variability of the returns from each entity.

As explained in note 17, the Group experiences net credit risk and prepayment risk in relation to the SME loan assets net of bond liabilities, and interest rate risk in relation to the warehouse loan facilities and floating rate bond liabilities which is partially mitigated through the use of derivative financial instruments.

The principal activities of the Group's most significant subsidiary undertakings are set out below. These are considered significant in the context of the 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.
FC Marketplace, LLC	Acts as originator and servicer of all loans made through the Funding Circle platform in the US. FC 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, LLC) on an arm's length basis. FC Marketplace LLC initially holds loans for a two to three days' cure period before selling the loan on to 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 FC 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 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 Nederland B.V.	Operates the Funding Circle platform in the Netherlands and services loans.

Company balance sheet

as at 31 December 2019

	Note	31 December 2019 £m	31 December 2018 £m
Non-current assets			
Investments in subsidiary undertakings	5	**416.2**	264.6
Loans due from subsidiary undertakings	7	**–**	1.7
		416.2	266.3
Current assets			
Loans due from subsidiary undertakings	7	**0.9**	0.1
Trade and other receivables	6	**0.6**	0.3
Cash and cash equivalents	11	**80.8**	303.7
		82.3	304.1
Total assets		**498.5**	570.4
Current liabilities			
Trade and other payables	8	**1.3**	2.0
Total liabilities		**1.3**	2.0
Equity			
Share capital	9	**0.3**	0.3
Share premium account	9	**292.3**	291.8
Share options reserve		**11.9**	6.0
Retained earnings	10	**192.7**	270.3
Total equity		**497.2**	568.4
Total equity and liabilities		**498.5**	570.4

The Company's loss for the year was £81.6 million (2018: loss of £7.8 million).

The financial statements on pages 144 to 154 were approved by the Board and authorised for issue on 12 March 2020. They were signed on behalf of the Board by:

Sean Glithero
Director

Company registration number 07123934

The notes on pages 147 to 154 form part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2019

	Note	Share capital £m	Share premium account £m	Share options reserve £m	(Accumulated losses)/retained earnings £m	Total equity £m
Balance at 1 January 2018		0.2	278.0	13.9	(13.0)	279.1
Loss for the year	10	—	—	—	(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		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
Loss for the year	10	—	—	—	(81.6)	(81.6)
Transactions with owners						
Transfer of share option costs		—	—	(4.0)	4.0	—
Issue of share capital	9	—	0.5	—	—	0.5
Employee share schemes – value of employee services		—	—	9.9	—	9.9
Balance at 31 December 2019		**0.3**	**292.3**	**11.9**	**192.7**	**497.2**

The notes on pages 147 to 154 form part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2019

	Note	31 December 2019 £m	31 December 2018 (restated) £m
Net cash outflow from operating activities	11	**(4.1)**	(6.0)
Investing activities			
Loans advanced to subsidiary undertakings	7	**–**	(1.7)
Loan repayment from subsidiary undertakings		**0.2**	14.6
Capital contribution to subsidiary undertakings	5	**(220.9)**	(58.3)
Interest received		**1.2**	0.5
Net cash outflow from investing activities		**(219.5)**	(44.9)
Financing activities			
Preferred dividend payment		**–**	(0.5)
Proceeds on the issue of ordinary shares on IPO		**–**	300.0
Payment of IPO costs		**–**	(9.1)
Proceeds on the issue of shares from the exercise of share options		**0.7**	1.1
Net cash inflow from financing activities		**0.7**	291.5
Net (decrease)/increase in cash and cash equivalents		**(222.9)**	240.6
Cash and cash equivalents at the beginning of the year		**303.7**	63.1
Cash and cash equivalents at the end of the year		**80.8**	303.7

The year to 31 December 2018 has been restated to re-present certain IPO adviser costs within operating cash flows – refer to note 23 of the consolidated financial statements.

The notes on pages 147 to 154 form part of these financial statements.

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 Company is a public company limited by shares and registered in England and Wales.

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 5 for further details).

Key sources of estimation uncertainty

The preparation of financial statements requires the Company to make estimates and judgements that affect the application of policies and reported amounts. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source 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. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Impairment of investments in subsidiary undertakings (note 5)

The carrying value of investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on the value in use. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the subsidiaries and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates. During the year impairment was identified in relation to the investment in Funding Circle Continental Europe GmbH. Based on the performance of the entity and changes to the medium-term outlook for the investment it was determined that the carrying value exceeded the value in use. The investment was fully impaired by £77.5 million.

The investment in Funding Circle USA, Inc. has a carrying value of £243.9 million. An annual impairment review was undertaken in relation to the carrying amount of the investment and while it was not found to be impaired, it is considered that there are reasonably possible outcomes that may differ from management's estimation assumptions that could lead to material impairment of the investment.

The Group prepares a five-year management plan for its operations, which is used in the value-in-use calculation. For compound annual growth rates the majority of the sensitivity is in the growth rate applied to the fifth year which is forecast out into perpetuity. The cash flow projections are based on the following key assumptions presented along with the sensitivity to impairment for each key assumption:

- revenue growth at a compound annual growth rate of 26.5% and cost growth at a compound rate of 13.3%. A 5.2% decline in the projected fifth year revenue growth rate with no cost reduction or a 6.4% increase in the projected fifth year cost growth rate without revenue growth would reduce the estimated value in use to be equal to the carrying value of the investment;
- pre-tax discount rate of 12%. A 1.5% increase in the discount rate would reduce the estimated value in use to be equal to the carrying value of the investment; and
- revenues beyond the five-year period are extrapolated using an estimated growth rate of 2.0%. A reduction in the growth rate to (0.3%) would reduce the estimated value in use to be equal to the carrying value of the investment.

The above assumptions are based on historical trends and future market expectations.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2019

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 assets and liabilities of 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 as at 31 December 2019:

	Carried at amortised cost		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	0.9	0.9	–	–
Trade and other receivables	0.3	0.3	–	–
Cash and cash equivalents	34.8	34.8	46.0	–
	36.0	36.0	46.0	–
Liabilities				
Loans due to related undertakings	(0.2)	(0.2)	–	–
	(0.2)	(0.2)	–	–

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 Company's financial assets measured at fair value are all carried at level 1.

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 as at 31 December 2018:

	Carried at amortised cost		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				
Loans due to related undertakings	(0.2)	(0.2)	–	–
Trade and other payables	(0.7)	(0.7)	–	–
	(0.9)	(0.9)	–	–

Financial instruments measured at amortised cost

Financial assets and liabilities 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.

The fair value of cash and cash equivalents at 31 December 2019 and 31 December 2018 approximates the carrying value. Credit risk is mitigated as cash and cash equivalents are held with reputable institutions.

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial asset 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 2019 £m	31 December 2018 £m
Non-current		
Loans due from related undertakings	**–**	1.7
Current		
Loans due from related undertakings	**0.9**	0.1
Trade and other receivables:		
– Amounts due from related undertakings	**0.3**	–
Cash and cash equivalents	**80.8**	303.7

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.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2019

2. Financial risk management continued

Financial risk factors continued

Liquidity risk continued

The maturity analysis of financial assets and liabilities at 31 December 2019 and 31 December 2018 is as follows:

At 31 December 2019	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	**0.3**	–	–	–
Cash and cash equivalents	**80.8**	–	–	–
Loans due from related undertakings	**0.9**	–	–	–
	82.0	–	–	–
Financial liabilities				
Trade and other payables	**(0.2)**	–	–	–
	(0.2)	–	–	–

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	–	–	–	–
Cash and cash equivalents	303.7	–	–	–
Loans due from related undertakings	–	0.1	1.7	–
	303.7	0.1	1.7	–
Financial liabilities				
Trade and other payables	–	(0.9)	–	–
	–	(0.9)	–	–

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 positions 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. A 0.5% increase in Libor could increase the annual interest earned by c.£0.4 million (2018: 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.

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 17 to the consolidated financial statements.

Capital management

The Company considers its capital to comprise 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.

2. Financial risk management continued

Capital management continued

The Directors monitor a number of KPIs at both the Company 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 Company. 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 Company has adequate resources to meet its working capital requirements.

3. Company 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 £81.6 million (2018: comprehensive loss of £7.8 million).

4. Employees

The Company had no employees during the current or prior year other than Directors. The Company did not operate any pension schemes during the current or preceding year. Directors received emoluments in respect of their services to the Company during the year of £1.2 million (2018: £0.9 million). For further information see the Remuneration Report.

5. Investments in subsidiary undertakings

	31 December 2019 £m	31 December 2018 £m
Balance at 1 January	**264.6**	201.8
Capital contribution regarding employee services in subsidiaries	**8.2**	4.5
Additions	**220.9**	58.3
Impairment	**(77.5)**	—
Capitalisation of intercompany loans	**—**	—
	416.2	264.6

Investments in subsidiary undertakings, which are listed in note 30 of the Group financial statements, are all stated at cost less any provision for impairment.

During the year the Company made capital contributions in the form of cash investments of £127.1 million (2018: £31.5 million), £9.1 million (2018: £12.2 million) and £84.7 million (2018: £14.6 million) 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.

In addition to the above, the Company recognised a capital contribution of £8.2 million (2018: £4.5 million) representing the service cost for the employees of its subsidiaries, under the Company's share option schemes.

During the year the Company identified impairment of £77.5 million to the Company's investment in Funding Circle Continental Europe GmbH as the value in use calculated was below the carrying amount.

The cumulative amount of impairment losses in relation to investment in subsidiaries is £77.5 million (2018: £nil).

6. Trade and other receivables

	31 December 2019 £m	31 December 2018 £m
Amounts due from related undertakings	**0.3**	—
Prepayments	**0.2**	0.2
Accrued income	**0.1**	0.1
	0.6	0.3

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 2019

7. Loans due from subsidiary undertakings

	31 December 2019 £m	31 December 2018 £m
Funding Circle Ltd	—	1.5
Funding Circle Continental Europe GmbH	0.8	—
Stichting Derdengelden Funding Circle	0.1	0.1
Funding Circle Global Partners Limited	—	0.2
	0.9	1.8
Less: non-current portion	—	(1.7)
Current portion	0.9	0.1

Amount due from Group undertakings

During 2019, the Company continued to operate a loan facility agreement with Funding Circle Ltd (subsidiary company). Under the terms of the agreement, the Company provided an unsecured sterling term loan facility of a total principal amount not exceeding £30 million (2018: £30 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 was repayable with the principal amount at the end of the facility term of five years which expired on 31 December 2019. A term loan facility of £16 million was amended in the year to operate as a revolving credit facility (2018: £16 million term loan facility) under the same terms above expiring on 23 November 2020.

During the year the Company has provided £5.1 million (2018: £1.5 million) of additional funding under the facility agreement. Total interest income of £0.1 million (2018: £0.3 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 year, Funding Circle Ltd settled certain amounts due under the intercompany loan obligations cumulative of interest of £6.6 million (2018: £14.6 million) with Funding Circle Holdings plc.

During the year the Company provided a revolving credit facility to Funding Circle Continental Europe GmbH of up to €2.0m. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 18 July 2024. The facility was drawn by £0.8 million (2018: £nil) at the balance sheet date.

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 term loan facility was amended to operate as a revolving credit facility under the same terms.

During the year the Company has provided £nil (2018: £0.2 million) of funding under the facility agreement. The carrying amount of this receivable approximates to its fair value.

During the year the Company provided a revolving credit facility to Funding Circle Canada of up to £2.1 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of two years on 22 April 2021. The facility was drawn by £0.9 million (2018: £nil) at the balance sheet date. The Company has impaired this loan balance in full under the expected credit loss model.

During the year the Company provided a term loan facility to Funding Circle USA, Inc. of up to £6.3 million. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable at the end of the facility term of five years on 30 October 2024. The facility is undrawn at the balance sheet date.

8. Trade and other payables

	31 December 2019 £m	31 December 2018 £m
Accruals	0.7	0.5
Taxes and social security costs	0.4	0.6
Other creditors	—	0.2
Amounts due to related undertakings	0.2	0.7
	1.3	2.0

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

9. Share capital and share premium

The movement on these items is disclosed in notes 18 and 19 to the consolidated financial statements.

10. Retained earnings/(accumulated losses)

	£m
At 1 January 2018	(13.0)
Capital reduction	278.1
Transfer of share option costs	13.0
Loss for the year	(7.8)
At 31 December 2018	270.3
Transfer of share option costs	4.0
Loss for the year	(81.6)
At 31 December 2019	**192.7**

11. Notes to the Company statement of cash flows

Cash outflow from operating activities

	31 December 2019 £m	31 December 2018 (restated) £m
Loss before taxation	**(81.6)**	(7.8)
Adjustments for		
Interest receivable	**(1.4)**	(0.8)
Non-cash employee benefits expense – share-based payments	**1.5**	1.1
Impairments (note 5 and note 7)	**78.4**	–
Changes in working capital		
Movement in trade and other receivables	**(0.4)**	0.2
Movement in trade and other payables	**(0.6)**	1.3
Net cash outflow from operating activities	**(4.1)**	(6.0)

The year to 31 December 2018 has been restated to re-present certain IPO adviser costs within operating cash flows – refer to note 23 of the consolidated financial statements.

Cash and cash equivalents

	1 January 2019 £m	Cash flow £m	**31 December 2019 £m**
Cash and bank balances	303.7	(222.9)	**80.8**

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 2019, money market funds totalled £46.0 million (2018: £150.0 million).

Notes forming part of the Company financial statements continued

for the year ended 31 December 2019

12. Related parties

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2019 £m	31 December 2018 £m	**31 December 2019 £m**	31 December 2018 £m
Short-term payables/receivables				
Funding Circle Ltd	**0.2**	–	**–**	0.7
Funding Circle USA, Inc.	**0.1**	–	**–**	–
Funding Circle Continental Europe GmbH	**–**	–	**0.2**	–
Intercompany loans				
Funding Circle Ltd	**–**	1.5	**–**	–
Funding Circle Continental Europe GmbH	**0.8**	–	**–**	–
Stichting Derdengelden Funding Circle	**0.1**	0.1	**–**	–
Funding Circle Global Partners Limited	**–**	0.2	**–**	–
	1.2	1.8	**0.2**	0.7

During the year, the Company received payment of expenses for amounts of £1.5 million (2018: received payment of expenses for amounts of £1.1 million) from Funding Circle Ltd.

As at the year end, the Company was owed a cumulative amount of £nil (2018: £1.5 million), £0.1 million (2018: £0.1 million) and £0.8 million (2018: £nil) from loans with Funding Circle Ltd, Stichting Derdengelden Funding Circle and Funding Circle Continental Europe GmbH. In addition it was owed £0.9 million by Funding Circle Canada which has been fully impaired by the Company.

13. 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 section 479A of the Companies Act 2006 relating to subsidiary companies:

Company	Registration number
Funding Circle Asset Finance Limited	07832868
Funding Circle Midco Limited	11793162
Funding Circle Trustee Limited	07239092
Funding Circle Property Finance Limited	08896582
Funding Circle Global Partners Limited	10554628

The Company will guarantee the debts and liabilities of the above UK subsidiary undertakings at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

The Company will guarantee the debt and liabilities of the European subsidiary Funding Circle Continental Europe GmbH and therefore meets the requirements of Section 264(3) HGB and the entity is not subject to audit by virtue of this guarantee. The Company has assessed the probability of loss under the guarantee as remote.

The following UK entity, which is 100% owned by the Group, is exempt from the requirement to prepare accounts by virtue of section 394A and section 448A of the Companies Act 2006 relating to the individual accounts of dormant subsidiaries:

Company	Registration number
Made To Do More Limited	10575978

14. Remuneration of key management personnel

The remuneration of key personnel is disclosed in note 26 to the consolidated financial statements.

15. Ultimate controlling party

In the opinion of the Directors, the Group does not have a single ultimate controlling party.

Alternative performance measures

The Group uses a number of alternative performance measures ("APMs") within its financial reporting. These measures are not defined under the requirements of IFRS and may not be comparable with the APMs of other companies. The Group believes these APMs provide stakeholders with additional useful information in providing alternative interpretations of the underlying performance of the business and how it is managed and are used by the Directors and management for performance analysis and reporting. These APMs should be viewed as supplemental to, but not as a substitute for, measures presented in the financial statements which are prepared in accordance with IFRS.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition
Income statement			
Adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to note 3.	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.
Segment adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to note 3.	Adjusted EBITDA before product development and central costs.
Exceptional items	None.	Refer to note 5.	Items which the Group excludes from adjusted EBITDA in order to present a measure of the Group's performance. Each item is considered to be significant in nature or size and is treated consistently between periods. Excluding these items from profit metrics provides the reader with additional performance information on the business across the business as it is consistent with how information is reported to the Board and GLT.
Adjusted earnings/ loss per share	Earnings per share.	Refer to note 9.	Profit/loss after tax attributable to owners of the Parent and before the impact of exceptional items, divided by the weighted average number of ordinary shares in issue during the year.
Adjusted diluted earnings/loss per share	Diluted earnings per share.	Refer to note 9.	Profit/loss after tax attributable to owners of the Parent and before the impact of exceptional items, divided by the weighted average number of ordinary shares in issue during the year adjusted for the effects of any potentially dilutive options.
Cash flow			
Free cash flow	Cash generated from operating activities.	Refer to note 23.	Net cash flows from operating activities including the cash cost of purchasing intangible assets, property, plant and equipment, interest received, IPO costs in operating activities and the payment of lease liabilities, i.e. the cash flows excluding the investment and funding of SME loan purchases and capital raising.

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 registrars 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	12 March 2020
Annual Report published	3 April 2020
Annual General Meeting	20 May 2020

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

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1 Embankment Place
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Bankers

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London E14 5HP

Santander UK plc
2 Triton Square
Regent's Place
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Solicitors

Freshfields Bruckhaus Deringer LLP
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Registrars

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Lancing
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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 2019 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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