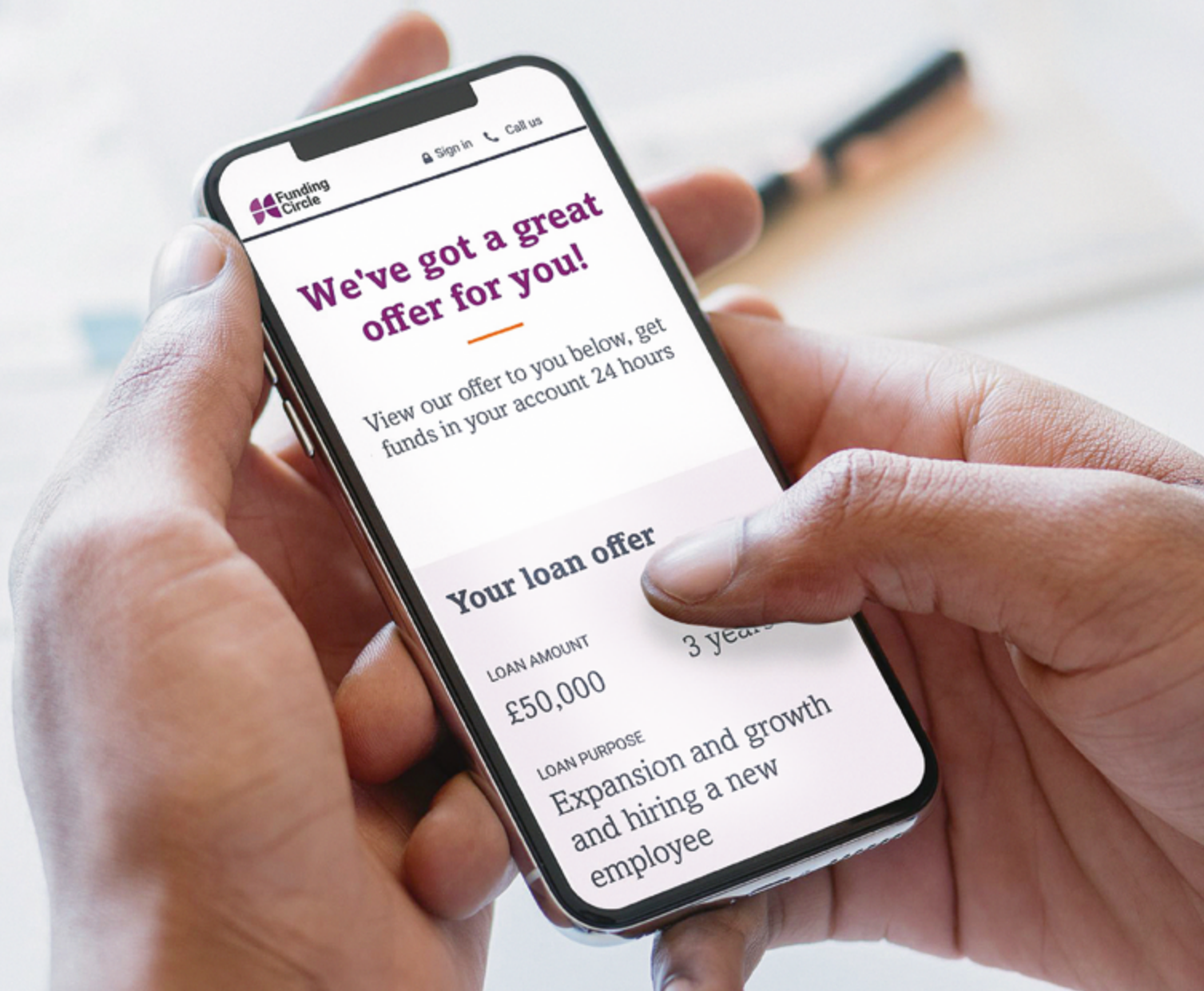




HELPING SMALL BUSINESSES WIN

Funding Circle Holdings plc
Annual Report and Accounts 2020



Sign in Call us

We've got a great offer for you!

View our offer to you below, get funds in your account 24 hours

Your loan offer

LOAN AMOUNT

£50,000

LOAN PURPOSE

Expansion and growth and hiring a new employee

3 years

OUR MISSION

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

HOW WE DO IT

We deliver an amazing experience for small businesses powered by machine learning and technology.

Highlights

A year of two halves

- H1 2020 responding to Covid-19
- H2 2020 strong demand with H2 2020 UK originations c.£1.5 billion, up 91% year-on-year

Our technology platform is transforming the SME borrowing experience

- 50% of applications now getting instant decisions

Resilient funding and loan performance through the recession

- All investor cohorts expected to deliver positive returns

Profitable in H2 2020

- Group: H2 2020 £20.3 million AEBITDA FY: £(63.8) million and H2 2020 £7.2 million operating profit. FY: £(106.3) million
- UK: H2 2020 £28.6 million AEBITDA. FY: £6.5 million and H2 2020 £21.3 million operating profit. FY: £(7.9) million

Robust net assets of £218 million

- Small increase in net assets since June 2020

Building a dynamic team

- All Circlers are owners of the business through an equity programme
- 83% would recommend Funding Circle as a place to work
- 41% gender diversity across the business

Statutory financial

KPIs

Total income

£222.0m

2019: £177.3m

Loss before tax

£108.1m

2019: £84.2m

APM¹

KPIs

Adjusted EBITDA¹

£(63.8)m

2019: £(27.5)m

Operational

KPIs

Loans under management

£4.2bn

2019: £3.7bn

Originations

£2.7bn

2019: £2.4bn

1. For reconciliation of alternative performance measures ("APM") to statutory measures refer to page 171.

Contents

Strategic report

01	Highlights
02	Funding Circle at a glance
03	Investment case
04	Our 2020 story
06	Chairman's statement
08	Chief Executive Officer's statement
10	Our market
13	Technology and data
14	Our model
16	Borrower experience
17	Investor experience
18	Strategic priorities
19	Our people
22	Sustainability
26	Engaging our stakeholders
28	Key performance indicators
30	Finance review
36	Risk management
40	Principal risks and uncertainties
48	Viability statement

Corporate governance

51	Chairman's introduction
53	Board of Directors
56	Corporate governance report
62	Division of responsibilities
63	Composition, succession and evaluation
65	Audit, risk and internal control
66	Report of the Nomination Committee
69	Report of the Audit Committee
75	Report of the Risk and Compliance Committee
78	Directors' remuneration report
89	Annual report on remuneration
99	Report of the Directors
102	Statement of Directors' responsibilities in respect of the financial statements

Financial statements

104	Independent auditors' report
112	Consolidated statement of comprehensive income
113	Consolidated balance sheet
114	Consolidated statement of changes in equity
115	Consolidated statement of cash flows
116	Notes forming part of the consolidated financial statements
160	Company balance sheet
161	Company statement of changes in equity
162	Company statement of cash flows
163	Notes forming part of the Company financial statements
171	Glossary
172	Shareholder and Company information

The Strategic Report was approved by the Board on 25 March 2021.

Samir Desai
Chief Executive Officer

Funding Circle at a glance

About Funding Circle

At Funding Circle we deliver an amazing customer experience for small businesses using machine learning and technology.

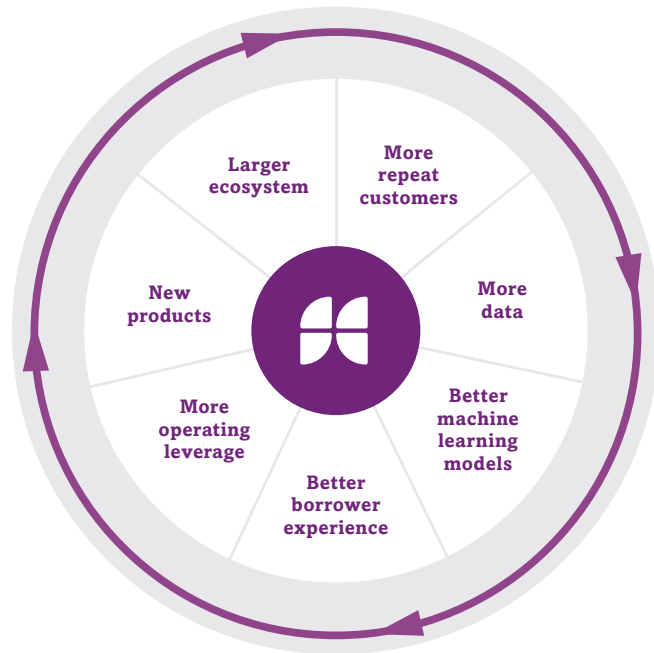
A great customer experience is built on exceptional fundamentals and seamless technology.

Over the past ten years, we have built a technology platform that is revolutionising SME lending. Small businesses can complete a loan application and receive a decision in a matter of minutes, enabling them to access funding quickly and at an affordable rate.

Today, as a leading global platform for small business loans we have helped over 100,000 small businesses to access more than £11.5 billion.

Our investment in technology has resulted in strong customer satisfaction scores and high repeat rates, helping us to grow alongside our small businesses.

We believe that as we get bigger and help more small businesses access the finance they need to grow, we create a stronger platform that drives significant 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.



135,000
jobs supported by
SME borrowers¹

£10 billion
GDP contribution¹

<2%
SME lending as a share
of bank balance sheets²

£305 billion
Total addressable market³



1. Source: Supporting SMEs through the crisis and recovery; Funding Circle's 2020 impact, Oxford Economics, March 2021.

2. Source: Bank of England, US Federal Reserve, FDIC.

3. Source: OC&C analysis, 2019.

WHAT MAKES FUNDING CIRCLE UNIQUE

Ground breaking technology

Instant Decision Lending is reinventing SME lending using machine learning and technology

[Read more on page 13](#)



50%
of loan applications automated

Proven #1 UK platform

Leading SME loans platform with ten years' experience

[Read more on page 04](#)



3rd
Largest CBILS¹ provider

Significant addressable market

SMEs are underserved by traditional lenders and represent a significant addressable market

[Read more on page 10](#)



£305 billion
Total addressable market in the UK and US

Attractive financial profile

Profitable in H2 2020 and expect to be AEBITDA profitable going forward

[Read more on page 30](#)



£7 million
Operating profit in H2 2020

Strong future growth opportunities

Launch new funding products to solve more small business problems

[Read more on page 18](#)



£1.3 trillion
SME payments annually in the UK

1. Coronavirus Business Interruption Loan Scheme, a UK government-guaranteed loan scheme.

Accelerating technological innovation and navigating Covid-19

Funding Circle was founded in the aftermath of the global financial crisis, when small businesses struggled to access finance through traditional channels. Ten years later, our technology is helping businesses to get fast and affordable finance at a time when they need it most.

Laying strong foundations

Powerful machine learning

A decade of research, development and technology has created an inflection point for Funding Circle. Our Instant Decision Lending platform is underpinned by eighth generation machine learning risk models using Open Banking data and ten years of proprietary data. This enables SME owners to receive a decision in minutes.

Starting the year strongly

2019 saw us lay strong foundations for 2020, with the roll-out of Instant Decision Lending. We started the year with a clear focus on improving conversion across the platform, providing attractive net returns to investors, and delivering profitable growth.

Following the UK General Election in Q4 2019 and Brexit in January 2020, demand for small business loans was high in the first two months of 2020 as businesses started to plan for the year ahead.

Covid-19 response

A seamless transition to working remotely

As the Covid-19 crisis started to unfold, our first priority was to ensure the health and safety of our people. The company switched to working remotely, with minimal disruption and no down-time in the UK and US.

Strengthening our customer service teams and forbearance support

We moved quickly to significantly bolster our customer support capacity, redeploying staff to frontline roles. Teams worked around the clock to provide support to small business customers.

By the end of March, we had developed and introduced new payment plans for businesses that were struggling with the impact of Covid-19. These plans provided much-needed breathing space by allowing businesses to reduce or stop their monthly repayments, giving them time to get back on their feet.

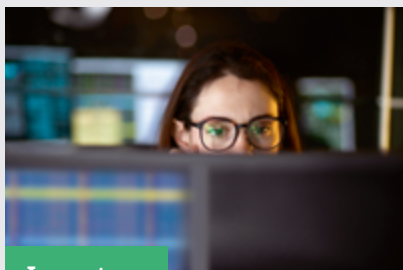


Borrowers

93%

of UK and US businesses are making payments

[Read more on page 16](#)



Investors

£2.5bn

investor capital raised since the start of Covid-19 to lend to UK and US SMEs

[Read more on page 17](#)



Circlers

700+

Circlers transitioned to working remotely in a matter of days

[Read more on page 19](#)

Following an initial spike, the number of borrowers becoming late on their loan repayments has fallen back to below pre-Covid-19 levels.

Launching government-guaranteed loan schemes

In order to help as many small businesses as possible through the pandemic, we shifted our focus from core loans to government SME guarantee programmes. We were proud to become one of the first FinTech lending platforms to become accredited for the Paycheck Protection Programme (“PPP”) in the US and the Coronavirus Business Interruption Loan Scheme (“CBILS”) in the UK.

In the UK, we completed our application for accreditation, created a new product and launched under CBILS within six weeks. To support our existing customers, we later received accreditation to the Bounce Back Loan Scheme (“BBLs”).

Accelerating the roll-out of Instant Decision Lending

With applications in six minutes, automated decisions in nine seconds and 24–48 hours to pay-out, the platform has been instrumental in helping thousands of SME owners access funding at speed during the pandemic.

This market-leading functionality now services 50% of all loan applications, and delivers a credit performance as accurate as non-instant decision lending loans, using the same credit risk models developed over the last decade.

Getting an instant decision can improve borrower conversion by up to a quarter. It also lowers costs and has greater scalability. We reached record levels of origination in the second half of 2020 without additional headcount and are well placed to capture this growing opportunity going forward.

Securing funding and protecting investor returns

We have seen strong investor demand to purchase UK and US SME loans. We have also made significant progress in our goal of diversifying our investor base. More than half of our funding agreements were signed with new institutional investors, including banks and asset managers.

As part of our measures to protect investor returns, we tightened our credit risk parameters and strengthened the criteria for businesses from vulnerable areas of the economy. As we moved to providing CBILS loans, we were able to begin helping a wider range of businesses.

Supporting Circlers

To keep teams connected and engaged while working remotely, we increased our communications across all levels of the business. We also adapted our approach to learning and development to ensure Circlers could continue to grow. Recognising the impact of the pandemic on mental and physical well-being, we hosted events throughout the year to ensure Circlers were well equipped to manage well-being for themselves and their teams.

Clear strategy for post-pandemic

In the UK, we will operate our core loan product alongside the new government programme, the Recovery Loan Scheme, which will replace CBILS.

We will also leverage our technology to launch new solutions to help SMEs. This includes an Application Programming Interface (“API”) embedding Funding Circle natively into partners’ websites and platforms. A new payment finance product will enable small business owners to pay invoices and spread costs over three months, and a new card for Funding Circle borrowers will enable them to better manage their business spending habits.

In the US, once PPP ends, we will continue to expand our core loan product, as well as originating government-guaranteed loans through the Small Business Administration (“SBA”) programme on behalf of banks. We will also continue to operate our referral model for other borrower needs.



Government and regulators

27%

share of the number of CBILS loans approved since scheme participation

[Read more on page 25](#)



Market

£1.7bn

CBILS loans originated and \$500m PPP loans originated in 2020

[Read more on page 10](#)

An extraordinary year that has strengthened the business

“

Funding Circle becoming one of the UK's largest lenders is an extraordinary vindication of the power of technology to solve problems for small businesses.



A year ago, just days ahead of the first national lockdown, I wrote that we had started 2020 in good shape as a sharper, leaner and more resilient business, but we faced unknown social and economic consequences created by the virus.

This resilience was tested beyond all expectations during the year. The consequences of the virus for borrowers, for investors and for our employees could have created an existential crisis. It is a credit to Funding Circle that a potential crisis was turned into an opportunity to step up, to serve and to strengthen. By stepping up to supply new government-guaranteed loans in the UK and the US, we served the needs of our customers and in the process we strengthened our own business.

Credit must go to all those involved in making this happen: the UK and US Governments for understanding the role FinTechs could play in supporting their economies, and the management team for its commitment to building the technology and processes which meant

Funding Circle was ideally positioned to respond to a physical lockdown of bank and office premises. Above all, our thanks must go to the wider team of Circlers, all my colleagues who rose to the occasion and showed themselves to be passionate about their mission and nimble in their approach.

It has been humbling to witness the exceptional employee contribution at all levels of our company. The whole workforce was able to operate remotely in a matter of days with minimal disruption. This is a testament to their planning and use of technology across every aspect of our business. Teams worked around the clock to be able to offer these new government-guaranteed loan schemes and Circlers adapted their roles overnight as we moved to support small business customers at a critical moment. The senior management team, together with the Board, faced critical decisions on an almost daily basis and I am extremely grateful to all for their commitment and effort in the face of increased pressure.

Our team and governance

Your Board's strategic and tactical decisions also needed to be nimble. I wrote last year about a balanced focus on profit and growth. As Covid-19 escalated we refocused our sights and prioritised an acceleration to profitability. We cut costs where it made sense, with a lighter touch strategy for European markets and reduced headcount in our US business. As the governments' support initiatives took shape, we decided where to focus our resources. Together with an exceptional period of lending, we delivered Group profitability in the second half of the year – an important milestone for the business.

Our governance structures proved themselves robust and fit for purpose through the crisis. I thank the members of all our Board Committees for their hard work, always acting constructively and honestly during many hours of countless virtual meetings. During the year Oliver White joined as our new Chief Financial Officer and his calmness and experience



SUPPORTING OUR PEOPLE

CIRCLERS PROVED THEIR RESILIENCE

Teams worked around the clock to be able to offer new government-guaranteed loans and Circlers adapted their roles overnight as we moved to support small business customers at a critical moment.



It has been humbling to witness the exceptional employee contribution at all levels of our company.

Andrew Learoyd
Chairman

have been invaluable during the crisis. I would also like to pay particular thanks to Cath Keers, Bob Steel and Ed Wray, who are stepping down this year. Each has made a significant contribution to the Board and its Committees, and they have played an important part in a Board which continues to support and challenge in equal measure. Above all, they have made it fun to be a part of too. I wish them well. I also offer an equally warm welcome to Helen Beck, who will chair our Remuneration Committee, and to Matthew King, who will join the Board while continuing to chair the Board of Funding Circle Ltd, our UK regulated subsidiary. Both Helen and Matthew bring a wealth of relevant experience for the next stage of Funding Circle's development.

Transforming the SME borrowing experience

I have always highlighted the extraordinary passion of our team and, in part, this is driven by the strong values inherent in our mission. This passion and these values, so reflective in our commercial endeavours, also need to be harnessed in our impact on the environment and on society. To this end, I am pleased that the Board has formed an ESG Committee dedicated to proactively deciding on our goals and implementing steps to deliver them.

Since its formation in 2010, many people have questioned the survival of Funding Circle during an economic downturn. During the worst economic downturn in decades our company has not only survived, it has thrived. In my last report, I congratulated our tech team for building a platform in 2019 that reinvented SME lending, using machine learning to provide instant decisions for small business borrowers.

I said then that our customer research told us that small company owners preferred to access financial products online rather than "in-store". Like online retail, our platform was built for normal times but has more than proved its value in a time of crisis. Funding Circle becoming one of the UK's largest SME lenders, larger than banks which have been in business for centuries, is an extraordinary vindication of the power of technology to solve problems for small businesses.

Furthermore, and particularly pleasing for the future, the business has continued to produce positive net returns for investors through the cycle.

Looking forward

For the last two years I have written at a pivotal time for the economy – first, Brexit uncertainty, then the pandemic.

With the roll-out of vaccinations and a roadmap for the easing of lockdown, light is now at the end of the tunnel. Small businesses will begin to drive the recovery in our economies and it is more important than ever that they have the ability to access finance.

With such an extraordinary year behind us, it is impossible to make accurate predictions for the year ahead. But some things are now certain. The crisis has proven the fundamental strength of our business, the attractiveness of our financial model and the competitiveness of our loan product; governments have shown their commitment to supporting SMEs; our customers have proven that they like us – we have unprecedentedly high Net Promoter Scores from borrowers – and want to do more with us; and we have a team that has proven it can deliver more volume, more products and more technology enhancements with speed and accuracy.

Whatever the new normal looks like, these certainties are a truly exciting vindication of our founders' vision to make Funding Circle a dominant force in our FinTech future.

Andrew Learoyd
Chairman
25 March 2021

Here to make a difference



“

Our Instant Decision Lending platform is transforming the borrower experience and laying the foundations for the launch of new, exciting products that will solve more problems for SMEs.

Funding Circle was founded in response to the financial crisis that rocked the global economy at the start of the last decade. We knew there was a better way for small businesses to get the funding they need to win; one that leveraged technology and machine learning to make a real difference. Ten years later, over 100,000 small businesses have borrowed over £11.5 billion.

In 2020, SMEs found themselves in a crisis again. This time round though – the strength of the platform and position we have built over the last decade allowed us to play a key part in helping SMEs to weather the storm.

During extraordinary global events, Funding Circle was one of the first FinTech platforms to become accredited to PPP in the US and CBILS in the UK. We knew that small businesses were having to make big decisions fast.

Underpinned by our Instant Decision Lending technology, we were able to offer SMEs access to finance quickly at low rates when speed and certainty were absolutely critical.

I'm incredibly proud of the support we have been able to provide to businesses in a challenging year. This wouldn't have been possible without the hard work and dedication of our people. Ensuring their health, safety and well-being was also a key priority.

Financial and operational overview

2020 was truly a year of two halves. In the first half we focused on adapting to Covid-19, helping customers and supporting Circlers in the transition to remote working. We increased the capacity of our frontline teams and introduced a range of forbearance measures to give businesses the breathing space they needed.

Through careful management of our existing loan book, I am pleased that 93% of UK and US customers are making payments and all loan cohorts are expected to deliver positive returns.

We also made some difficult decisions, including restructuring our German and Dutch businesses and making changes to our US business. These choices were not taken lightly but were in the interests of the long-term success of Funding Circle and our customers. I want to thank everyone who has contributed to our journey in those countries.

The second half of the year saw strong borrower and investor demand, with UK originations up 91% year-on-year. Along with record originations of £2.7 billion and loans under management of £4.2 billion, we ended the year with a 25% increase in total income at £222 million.



SUPPORTING BUSINESSES

TAKING CUSTOM CABINS GLOBAL

I am pleased that we have exceeded our target of being AEBITDA profitable in H2 2020 by delivering £20 million of AEBITDA and £7 million of operating profit in H2 2020. This is a significant milestone for the business.

Overall AEBITDA was impacted by a significant fair value adjustment incurred on SME loans held for sale in H1 2020, the majority of which was caused by Covid-19.

Going into 2021, we are in a strong position, with net assets of £218 million and £103 million in cash, of which £39 million is held within the warehouse and securitisation vehicles.

A year of huge technological innovation

We are reinventing SME lending using machine learning and market-leading technology. Our technology platform is transforming the borrower experience and laying the foundations for the launch of new, exciting products that will solve more problems for small businesses. It is proof that our relentless focus on technology and machine learning is helping businesses access finance faster. We also met our IPO goal of automating 50% of loan applications by the end of 2020 and have set a long-term target to automate 80% of all loan applications.

This technology is freeing thousands of SMEs from the hassle of outdated loan application processes and will help thousands more over the coming years too.

Our people

There is no escaping the fact that this year was a difficult one for many people. I have been inspired by the way our team has been able to meet the challenges head on with creativity, passion and resilience. I thank them for their exceptionally hard work and results.

Plankbridge

Plankbridge manufactures bespoke shepherd's huts. The business was founded by Richard Lee and his partner Jane Dennison in 2020.

The shepherd's hut manufacturer borrowed from Funding Circle in order to expand their product offering and their overseas market.

Over the past 12 months, as people have been forced to work from home, there has been a surge in interest from customers looking to create an office in their garden.

They now employ 24 staff who typically work on around ten hand-made huts at a time – with each hut taking at least six weeks to complete.

The company remains loyal to local suppliers within a ten-mile radius for timber and fixings, keeping the value within the local economy.

Looking ahead

As we turn our attention to what the future holds, we are well positioned to take advantage of the structural changes that are currently reshaping the SME lending market. We are seeing a significant acceleration in the move towards online borrowing among small businesses, and our ten years of online experience means we can capture this enlarged opportunity going forward.

We will operate core lending alongside government-guaranteed loan schemes. SMEs are central to our economic recovery, and we will do all we can to support them.

We are excited to build on the foundation our technology platform and ten years of R&D provides. As we launch more products to support businesses with their everyday needs and spending, I feel confident in saying that you can expect more innovation in the next year than the entire last decade. I look forward to updating you on our continued progress in 2022.

Samir Desai
Chief Executive Officer
25 March 2021

Small businesses are underserved by traditional lenders

SMEs are a fundamental part of the global economy, driving growth, employment and innovation. They account for 70% of employment and 50–60% of the economic value created across the OECD region. But they are underserved by traditional lenders and typically represent less than 2% of banks’ balance sheets.



The events of 2020 and the support provided by governments to SMEs further demonstrates their strategic importance to economies. Small businesses have shown remarkable adaptability and Covid-19 has led to a rapid acceleration in the shift towards online lending. We believe this change in the SME finance market is permanent.

A challenging year for small businesses

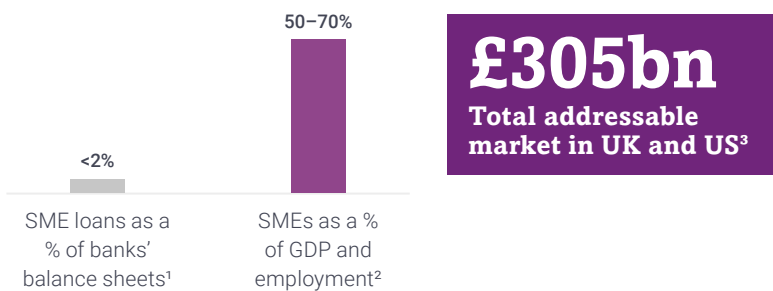
Covid-19 and the initial lockdown restrictions that were put in place by governments significantly impacted the ability of small businesses to trade, resulting in a sharp decline in economic activity as many were forced to temporarily close their doors. However, we saw large numbers of small businesses quickly pivot to offer goods and services online. Restaurants began selling meal kits and coffee companies adopted subscription models. 2020 was the year that the country fell in love with SMEs again, as they adapted and showed their resilience, creativity and passion in the face of incredible difficulties. Their response to the pandemic has been inspiring. While further lockdown restrictions have continued to be necessary in the UK and parts of the US, the ongoing roll-out of government vaccination programmes offer hope of a return to some sense of normality later this year.

But we will not be returning to things exactly as they were before. Covid-19 has driven a number of structural changes that Funding Circle will benefit from.

SMEs are strategically important to economic growth

The response of governments all over the world to Covid-19 has recognised the strategic importance of small businesses to economic growth and job protection.

Small businesses are underserved by traditional lenders



1. Source: Bank of England, US Federal Reserve, FDIC.
 2. Source: OECD SME and Entrepreneurship Outlook 2019.
 3. OC&C analysis, 2019.

Significant acceleration in adoption of online borrowing

Small businesses had to move fast in 2020, and many found that lending platforms offered them the speed and simplicity they needed. In a year where everything went online, small business borrowing was no different. Our ten years of experience in originating business loans online meant we were well positioned to accommodate an increase in online loan applications. In 2021 we will continue to leverage our technology and machine learning to offer small businesses more ways of accessing the finance they need to win.

5x

increase in search terms for online business loans in the UK

Strong demand from investors

Despite the pandemic, in 2020 our platform attracted record levels of capital. We are confident we will continue to attract strong demand from institutional investors to fund SME loans throughout 2021. All UK and US loan cohorts are expected to deliver positive annualised returns.

£2.5bn

investor capital raised since the beginning of Covid-19 to lend to UK and US SMEs

SMEs expect to have ongoing finance needs

More SMEs experienced accessing finance in 2020 and we believe they are likely to continue to do so in the future. For some, this was because they wanted a cash-buffer or needed to mitigate against the impact of Covid-19. Others used funding to invest and grow their business to take advantage of new opportunities, having successfully pivoted to trade through the pandemic. Whether businesses needed funding to survive or thrive, our platform ensured they got a fast decision with minimal work at their side.

40%

of SMEs expect to require finance in the next 12 months, primarily for growth or investment

Greater choice and competition

Governments across the world rightly identified the crucial value of small businesses and acted swiftly to introduce a range of support measures in response to the crisis. While the CBILS programme in the UK initially focused on the banking sector, the British Business Bank worked hard to get FinTech firms like Funding Circle accredited fast. With over 100 CBILS lenders accredited, small businesses had more choice than ever before. Funding Circle was founded in the aftermath of the global financial

crisis when small businesses struggled to access finance through traditional channels, and ten years on, we are proud to have contributed to providing businesses with a greater range of options through the pandemic. The agility of the FinTech sector means it can respond quickly to meet the funding needs of SMEs in both crises and benign times, and is helping to make the funding landscape for SMEs, as well as the economy, more resilient. We are seeing a similar situation in the US market, where large numbers of FinTech firms are driving growth and innovation in the sector.



SUPPORTING BUSINESSES

BUSINESS GROWTH: JUST OUR CUP OF TEA

Bird & Blend Tea Co.

Mike Turner and Krisi Smith, are the co-founders of Bird & Blend Tea Co – an independent, award-winning tea company based in Brighton which has shops across the UK as well as an online store.

When the pandemic hit, they had to adapt their operations to comply with social distancing regulations. They made structural changes to their workspaces, including the transformation of their office into a production facility and moving the office team to working remotely.

Mike and Krisi took out a Funding Circle CBILS loan to give themselves a cash flow buffer and continue to drive forward their growth plans. They employed 80 members of staff when the pandemic hit and they've now been able to grow that number to 100.



SUPPORTING BUSINESSES

TURNING A CHALLENGE INTO AN OPPORTUNITY

Fashionizer

Debbie Leon set up Fashionizer in 1993 when she noticed a gap in the market for luxury and bespoke uniform design.

The pandemic had a major impact on the business, after many clients in the hospitality and spa industries closed during the first lockdown. Debbie needed a cash injection to keep her business going at a time when production had slowed. She initially applied for a CBILS loan through her bank, almost a full two months later she'd had no response. By the time she did, Debbie had already received a Funding Circle CBILS loan.

The business adapted quickly, and switched to making fabric face masks. They spent the first three weeks researching best practice, sourcing the correct filters and making the patterns and samples. They successfully set up a manufacturing supply chain in London that operated throughout lockdown.

Delivering an amazing customer experience for small businesses using machine learning and technology

Our data accumulation and technology built over the last decade has laid the foundations to solve more small business problems.



Small businesses need to be able to make decisions fast. Our technology and machine learning capabilities enable them to do this.

By combining strong fundamentals such as credit risk management, with seamless technology, we create a great customer experience. Over the past ten years, we have built a huge SME knowledge base and aggregated vast amounts of information including 700,000 applications and 750 million repayment events. This enables our machine learning risk models to precision-credit assess small businesses significantly better than traditional credit bureau scores. For example, our eighth generation credit risk model is three times better at predicting risk than bureau scores in the UK.

Long-term target of

80%
of loan applications
automated

These exceptional risk capabilities are powered by leading technology. Continuous deployment enables us to scale quickly, efficiently and securely. The backbone of our technology includes distributed data streaming and functional programming which allow us to build scalable applications at speed. Using these systems gives us the ability to handle large amounts of data and manage complexity more easily than ever before. Our proprietary marketing data lake is called Panoramic. It contains 2 billion data points on 26 million small businesses. Finally, we have a dedicated cross-functional team of over 300 engineers, product managers and data scientists.

Unleashing instant decisioning

By combining machine learning credit risk models with technology we have been able to build our Instant Decision Lending platform, which is revolutionising SME lending.

With our decision oriented platform, we are able to customise every element of the borrower experience. For example, at the application stage, 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.

With an average application time of six minutes and lending decisions provided in an average of nine seconds, the platform has been instrumental in helping thousands of SME owners access the funds they need without the rigmarole of applying for a loan the old-fashioned way. This market-leading functionality now services 50% of all loan applications.

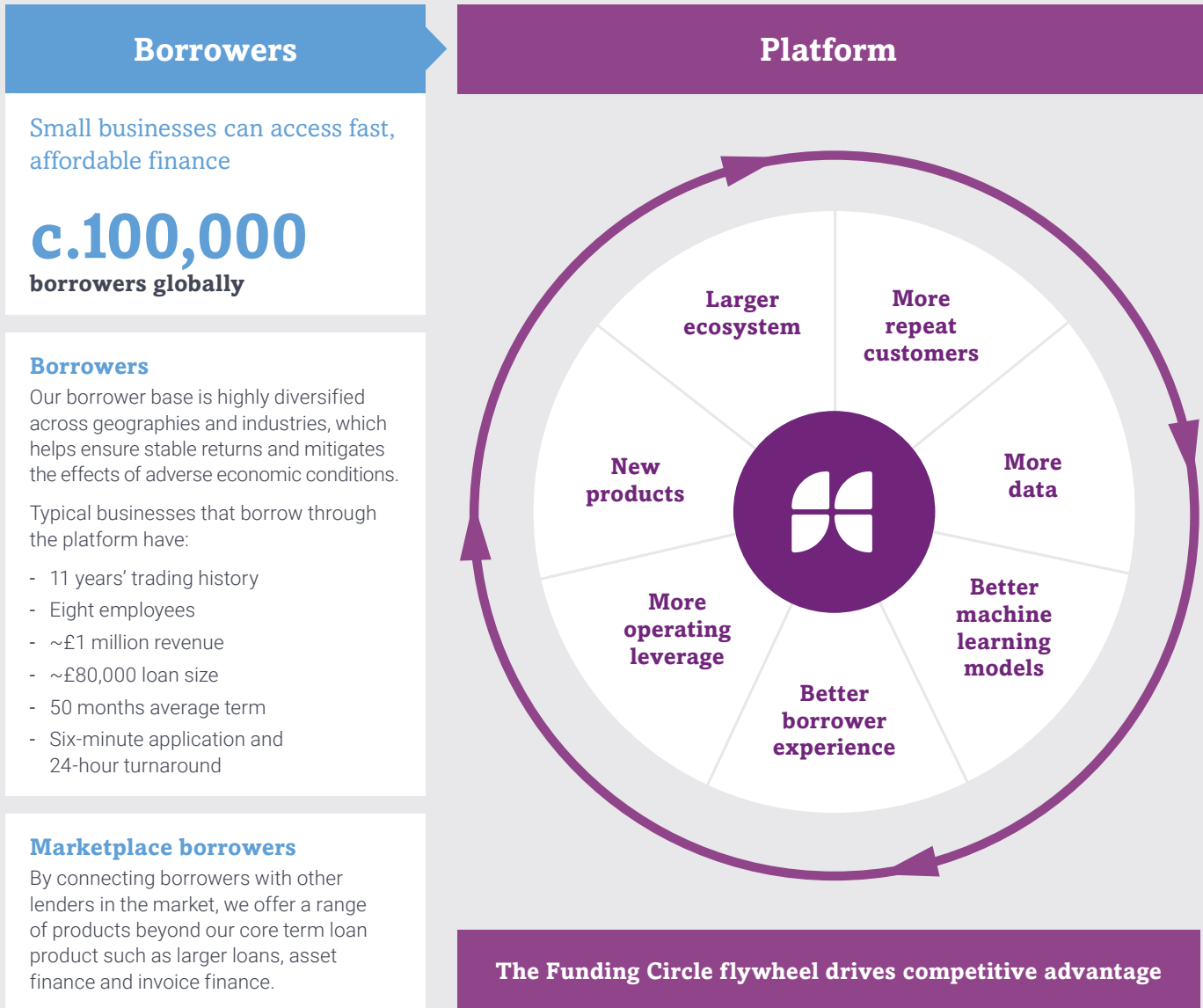
Instant Decision Lending delivers credit performance as accurate as non-instant decision lending loans, using the same credit risk models developed over the last decade. Getting an instant decision can improve borrower conversion by up to 25%. It also lowers costs and has greater scalability. We reached record levels of origination in the second half of 2020 without additional headcount and are well placed to capture this growing opportunity going forward.

We are just getting started

There are significant opportunities to support more customers by leveraging our technology platform. This includes an API embedding Funding Circle natively into partners' websites and platforms. A new payment finance product will enable small business owners to pay invoices and spread costs over three months, and a new card for Funding Circle borrowers will enable them to better manage their business spending habits.

How we create value

Covid-19 is proving the resilience of our unique model and showing that we are the preferred way for SMEs to access finance.



Investors

Investors can earn resilient returns

£2.5bn

investor capital raised in 2020

Investors

Our original innovation ten years ago opened up the SME asset class to investors. The platform model enables investors to make incremental investments, and our investor base is deep, diverse and stable, including a wide range of institutions and public bodies:

- 36% asset managers
- 35% banks
- 12% bond programme
- 11% retail funds
- 3% national entities
- 3% funds

How we make money

As a company, Funding Circle makes money in two principal ways:

Operating income

- Transaction fee income from the fees we charge borrowers
- Servicing fee income from the fees we charge investors

Investment income

The interest income on loans invested within Funding Circle's investment vehicles.

Value created

For borrowers

We provide SMEs with fast, flexible, affordable finance, delivering an amazing customer experience using machine learning and technology. This means they are free to get on with what they do best, growing their business while contributing to the local community and economy.

£11.5bn

lent to businesses

For investors

Access to an attractive asset class, previously mostly held on bank balance sheets, that is of strategic importance to economies.

4.5–5.5%

expected investor returns for loans originated in 2020 in the UK

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. Our new HMRC-approved share incentive plan, Equity for All, means Circlers will be granted free shares each year. We have always believed in the value of employee share ownership, and this new scheme will help more Circlers benefit.

83%

would recommend Funding Circle as a place to work

Fast, simple and affordable

In an extraordinary year, we introduced a range of measures that helped SMEs weather the storm, from rolling out new forbearance measures to offering government-guaranteed loans. We continued to make it simpler and faster for borrowers to get the finance they need so they could adapt their business and prepare to drive the economic recovery.



Fast and affordable finance at a time when SMEs need it most

For the last ten years, we have strived to provide an amazing borrower experience by combining cutting-edge technology with a human touch. In 2020, we wanted to go further and the accelerated roll-out of Instant Decision Lending was the next step. This market-leading functionality has transformed the entire customer experience, reducing the average application time to six minutes, with decisions being made in an average of nine seconds. It has never been simpler or faster for small businesses to secure the funding they need to win.

Helping borrowers through the pandemic

To help as many small businesses as possible through the pandemic, we became one of the first FinTech platforms to gain accreditation to government SME programmes in both the UK and the US.

In the UK, we completed our application for accreditation, created a new product and launched under CBILS within six weeks, all whilst working remotely. Because of our unrivalled customer experience, we were well placed to support the UK Government in delivering CBILS loans, with £1.7 billion loans originated in 2020. We are proud to have become the third largest CBILS lender. To support our existing customers, we also received accreditation to BBLS, with £27 million of loans originated in 2020. In the US, Funding Circle was approved by the SBA for PPP with \$500 million loans originated in 2020. We significantly grew our marketplace offering, enabling access to a diverse range of partner lenders to help expand SME funding options, with originations tripling in the second half of the year.

To provide customers with breathing space and give them time to adapt, we developed and introduced new payment

plans within two weeks of the first lockdown being announced in the UK. These plans allowed businesses to reduce or stop monthly repayments, giving them time to get back on their feet.

We also expanded our customer-facing teams to deal with the large rise in contacts, by assigning and retraining Circlers. By investing in new technology, we were able to streamline our processes and make them more efficient. This allowed customer-facing teams to spend more time supporting businesses, discussing their circumstances on the phone and managing their cases more effectively.

As a result of the steps taken, we were pleased that the number of borrowers becoming late on their loan fell back to below pre-Covid-19 levels as reported in our Half Year results in September. Now 93% of UK and US businesses are making full repayments, demonstrating their resilience and adaptability.

Our strategy for supporting borrowers post-pandemic

In the UK, we will operate our core loan product alongside the new government programme, the Recovery Loan Scheme, which will replace CBILS.

We will also leverage our technology to launch new solutions to help SMEs. This includes an API embedding Funding Circle natively into partners' websites and platforms. A new payment finance product will enable small business owners to pay invoices and spread costs over three months, and a new card for Funding Circle borrowers will enable them to better manage their business spending habits.

In the US, once PPP ends, we will continue to expand our core loan product, as well as originating government-guaranteed loans through the SBA programme on behalf of banks. We will also continue to operate our referral model for other borrower needs.

80–90 NPS

in UK and US in 2020

89%

of UK businesses return to Funding Circle first before exploring other options

50%

of all loan applications automated

9 seconds

average wait for a decision

6 minutes

average application time

Mature, proven and trusted

We continued to deepen and diversify our funding sources in 2020. By taking quick and prudent steps, investor returns remain positive, further demonstrating the strength and viability of our model.



Over the last decade we have opened up the SME asset class to investors, providing investment opportunities that were previously mostly not available before as SME loans were on the whole held on bank balance sheets. This has attracted a diverse range of investors including asset management companies, government-backed entities, public and private funds and individuals. The ABS Bonds and Private Funds launched in 2019 further widened the universe of investors that can access the platform, providing them with more choice around how they access the asset class. This diversification has helped to ensure the sustainability of our business.

Investor returns are positive

We expect all UK and US loan cohorts to deliver positive annualised returns.

Tightening our credit risk parameters and enhancing risk monitoring

As part of our measures to protect investor returns, we tightened our credit risk parameters and strengthened the criteria for businesses from vulnerable areas of the economy. As we moved to providing CBILS loans, we were able to begin helping a wider range of businesses.

We combine cutting-edge technology with the use of proprietary scoring models to boost the precision and efficiency of our credit risk and performance predictions. Enhancing our risk monitoring using more frequent and detailed data analysis helped us to spot potential signs of borrower stress much faster, and our increased customer support capacity allowed us to act on potential risks as soon as they emerged.

Retail lending

To concentrate on supporting the government's SME stimulus programme, we refocused all UK lending to go through CBILS once accredited. As a result, we paused all non-CBILS lending from retail and institutional investors.

As retail investors were not able to participate in CBILS, they continued to receive payments from existing borrowers with funds returned on a monthly basis.

Given the uncertain economic environment, to protect investor returns we also took the decision to pause the secondary market for retail investors.

Unlocking new investment opportunities as an accredited CBILS and PPP lender

There has been strong investor demand for SME loans and we made significant progress in our goal of diversifying our investor base. More than half of our funding agreements were signed with new institutional investors, including banks and asset managers. Since the beginning of Covid-19, more than £2.5 billion of investor capital has been raised to lend to UK and US SMEs on the Funding Circle platform. In 2020, the UK Private Fund was also given approval to expand its investment strategy to include investing in CBILS loans. This means more investors have been able to support small businesses as they seek to recover from the impact of Covid-19 and look toward future growth.

There will continue to be new investment opportunities in 2021. In the UK we will operate our core loan product alongside the new government programme, the Recovery Loan Scheme, which will replace CBILS. In the US, once PPP ends, we will continue to expand our core loan product as well as originate government-guaranteed loans through the SBA programme on behalf of banks.

Shaping the future of funding

Our mission is to help small businesses get the funding they need to win. As we look ahead to 2021 and beyond, we are focused on growing the UK and US businesses and introducing new solutions that will help even more small businesses with their financing needs.

2020 saw us come to the end of our medium-term plan; FC 2020. While 2020 turned out to be a year far different than we expected, we were able to deliver against our strategic priorities:

<p>1</p> <p>The roll-out of our Instant Decision Lending platform is driving a better borrower experience. This market-leading functionality has reduced the application time and wait for a decision to minutes.</p>	<p>2</p> <p>Our investment in data, technology and analytics has underpinned the build of this new technology.</p>	<p>3</p> <p>We were able to draw on our existing deep and diverse investor base to fund government-guaranteed loans and continued to attract new investors to the platform.</p>	<p>4</p> <p>We continued to build our base of SMEs, while introducing changes to accelerate the Group's path to profitability.</p>
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Our new plan is based on two key pillars and will ensure we are well positioned to respond to the needs of small businesses as they begin to drive the economic recovery:



Grow the UK and US businesses

In the UK, we will operate our core loan product alongside the new government programme, the Recovery Loan Scheme, which will replace CBILS.

In the US, once PPP ends, we will continue to expand our core loan product, as well as originating government-guaranteed loans through the SBA programme on behalf of banks. We will also continue to operate our referral model for other borrower needs.

Diversifying our funding base helps to ensure that small businesses can access finance whatever the weather. We will look to secure funding agreements with both new and existing institutional investors for our core loans alongside the government guarantee programmes in both the UK and US.



Launch new products

Over the next 12 months we will leverage our technology to beta launch new funding solutions to help small business owners solve more problems.

This includes an API embedding Funding Circle natively into partners' websites and platforms. A new payment finance product will enable small business owners to pay invoices and spread costs over three months, and a new card for Funding Circle borrowers will enable them to better manage their business spending habits.

Building the incredible together

Just like the small businesses we support, Funding Circle also had to work differently during 2020. The difference we were able to make to customers is the result of the talent and dedication of our people. United by passion, purpose and a commitment to our mission and values, we are building the incredible together.

We are a values-driven business with a unique culture that helps us harness the abilities of our employees to fuel long-term success. But the true test of culture is how it adapts to challenges and the solutions it creates. In 2020 our people rose to the occasion and provided customers the support they needed while navigating some big changes themselves. The launch of our new Circler Promise, Build the Incredible, is helping us to challenge ourselves to create even better careers, experiences and ways for businesses to get the funding they need to win.

Moving to remote working

As the Covid-19 crisis started to unfold, the company switched to remote working immediately, with minimal disruption and no downtime. Every Circler lived our company values to the fullest, with many temporarily moved to frontline teams, taking on new responsibilities to provide customers with as much support as possible.

To keep teams connected and engaged while working remotely, we increased our communication across all levels of the business. Weekly Local Gatherings became twice weekly and managers maintained team interactions through frequent catch-ups and check-ins.

We adapted our approach to learning and development, to ensure Circlers could continue to grow during the pandemic. This included the launch of Summer Learning which made more learning and development resources available online through our Circler Portal and introduced the LinkedIn Learning app and resources. We also introduced new management development training that helped managers to support teams and promote collaboration and creativity in remote environments.

Supporting well-being and keeping connected

Recognising the impact of the pandemic on mental and physical well-being, we hosted training and workshops, Mindfulness Mondays and panel discussions to help ensure Circlers were well equipped to manage well-being for themselves and their teams. FC bootcamp, a Circler-led initiative, brought online workouts to the company and raised money for a mental health charity. Among all the hard work, the company stayed connected through quizzes, lockdown lunches and Zoom parties. Teams showed creativity in their virtual bonding, hosting everything from 'Dragon's Den' projects to cocktail master-classes and book clubs.

Maintaining frequent dialogue in the remote working environment was crucial. We conducted regular surveys to help us understand how Circlers were feeling during a period of sudden changes and uncertainty, and measure employee engagement and satisfaction. We were pleased that scores increased from 73% in 2019 to 75% in 2020, demonstrating the value of increased communication and other support measures we had put in place. Workforce engagement will continue to be a key priority in 2021, as we focus on rewarding success, supporting well-being and nurturing development.

75%
Employee satisfaction scores

Building the Incredible

We launched our new people promise, Build the Incredible, at the start of 2020. Our people promise sets out the two-way deal and proposition between Funding Circle and its people, and ensures we provide an attractive and compelling offering to Circlers who choose to work at Funding Circle. More than that however, Build the Incredible is a challenge to all Circlers, to create and build the place for small businesses to get the funding they need to win. It's also a challenge to Funding Circle to create incredible careers and experiences at our company. In an extraordinary year, every Circler was united by this challenge, building the incredible for customers under the most unique conditions and circumstances.



Our people continued

Our values

Our shared values, passion and purpose underpin everything we do at Funding Circle. Together we are providing small businesses with the funding they need to win.

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.

Building the Incredible continued

As part of this promise, we introduced a new benefits package for all Circlers which includes the introduction of dental coverage, doubling paid maternity leave and increasing employer pension contributions. We have always believed in employee equity ownership, and want every Circler to be an owner of Funding Circle and share in our long-term success together. This remains part of our Circler promise, under 'Equity for All', an HMRC-approved share plan launched in 2020. As part of this, all Circlers will be granted free shares each year.

The Circler Promise will continue to be implemented and embedded throughout 2021, helping us to continue to acquire, develop and retain the best and brightest talent the industry has to offer.

83%

would recommend
**Funding Circle as
a place to work**



Women @FC

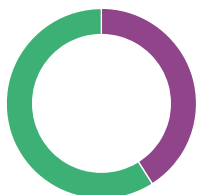
Women@FC is our women's network established in 2018 to generate an environment for women to succeed professionally and personally across all levels at Funding Circle. The group works across the business to deliver an activity programme in support of this. Funding Circle also drives building an active and supportive community within the FinTech industry, through FinTech Women, where women can connect, share and encourage one another to reach their goals. In 2020, Women@FC went virtual, hosting speed networking, industry thought leadership and borrower spotlight events.

Gender breakdown

As of 31 December 2020

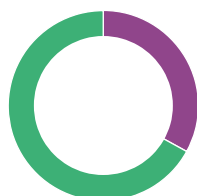
Overall¹

● Female 318 / 41%
● Male 450 / 59%



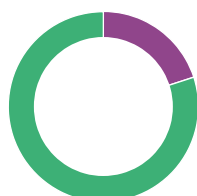
Senior Management²

● Female 16 / 33%
● Male 33 / 67%



Group Board

● Female 2 / 20%
● Male 8 / 80%



Global Leadership Team

● Female 3 / 38%
● Male 5 / 62%



1. There are a small number of Circlers who do not identify as male or female, and those who prefer not to disclose gender identity (<1%), and are not included in the reported data.

2. Defined as those reporting directly into Global Leadership Team).

Diversity and inclusion

We know we can only Build the Incredible through an inclusive and diverse culture where Circlers of all backgrounds feel confident in bringing their whole selves to work, where they can contribute their ideas, have opportunities to be successful, and their talents nurtured. Through empowering our people, we are not only building something incredible for customers, but an incredible place to work too. In 2020, with social movements boosting global awareness of issues relating to inclusion, we continued to build a workplace that provides equal opportunities to everyone and ensures Circlers feel at home.

2020 brought a renewed focus on co-ordinating our efforts on promoting diversity and inclusion and communicating this more effectively. With the support of an external provider, we offered diversity and inclusion training as part of our learning and development programme, helping Circlers to understand issues such as unconscious bias. Equality, diversity and inclusion are important parts of our new ESG framework, which has been approved by the Board and will be rolled out throughout 2021. As part of this, we will continue to embed these values through our corporate governance frameworks and further utilise our global and Circler led groups such as Women@FC, Circle of Pride and Let's Talk About Race. We will also introduce a new diversity and inclusion engagement plan in 2021 to further build on our work in 2020.

Funding Circle is committed to support the progression of women in the financial services and technology sectors. We have launched a range of initiatives, including the adoption of family-friendly policies and benefits, and play an active role within the FinTech industry to support female representation.

However, we recognise the challenges that exist in both these sectors with regards to gender diversity, which we have experienced first hand, particularly in the engineering and capital markets fields. This has made us even more determined to bring about long-term change to our industry.

In the past 18 months we have refocused our efforts and placed greater emphasis on the development and progression of female talent through the organisation, whilst also requiring a 50:50 split of candidates for most roles where we are hiring externally. As of December 2020, we are pleased to report overall female representation at Funding Circle of 41%. Our Global Leadership Team ("GLT") is 38%. We are also committed to achieving 40% gender diversity across our senior management population by the end of 2025.

Our policy for the employment of disabled persons is to provide equal opportunities to develop skills and secure roles relevant to 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.

A values driven culture

At Funding Circle, we are dedicated to implementing and maintaining the highest standards of behaviour, ethics and integrity, and to creating a culture where adherence to these standards is recognised and rewarded. Our new Code of Conduct, implemented this year, outlines these standards. It supports our mission and complements our values against which each Circler's performance is appraised, providing guidance as to what conduct Circlers should expect of each other and how they should interact with others. The Code of Conduct incorporates the FCA's individual Conduct Rules, which set out the baseline level of conduct and good behaviour expected by our regulator and will apply to all UK Circlers from 31 March 2021.

Sustainable thinking and sustainable results

We are here to build the incredible at Funding Circle. That means not only having a positive impact on our customers, but on the environment and the communities we live and work in too.

We are proud to play our part in creating a sustainable economy for future generations.

Small businesses are at the heart of our communities, and play a vital role in our economies. That is why we take our role as the bridge between them and investors so seriously – because ensuring SMEs have the funding they need to win creates wider benefits for us all. There is growing consensus that companies, investors and other stakeholders must consider corporate responsibility, the environment, social impact and governance issues in their day-to-day business practices, investment decisions and community interactions. Our approach to Environmental, Social and Governance (“ESG”) is driven by our corporate culture and values, our corporate governance practices and our enterprise risk management framework. In 2020, we took a number of important steps in this area to drive better stakeholder experiences as well as enhanced shareholder value.

Environmental, social and governance framework

Our goal is to build the place where businesses can get the funding they need to win. To make this goal a reality that future generations can continue to benefit from, we also need to ensure we are contributing positively to the creation of a fairer, more sustainable low-carbon economy. We began formalising our ESG strategy in 2019 to clearly set out how we are going to do this by limiting our emissions and creating a more diverse and inclusive working environment.

The Board approved a new ESG framework in 2020 and set up a new Board level ESG committee. The ESG

framework formalises our approach to corporate social responsibility, including integrating ESG factors within our enterprise risk management framework and our day-to-day operations. We will begin implementing the new ESG framework throughout 2021. We intend to take an incremental and proportionate approach to the implementation of industry practices related to ESG risk management. We believe it is important to start to frame our position; to incorporate these issues into our governance framework; to understand resource and competence requirements; to set strategic goals; and to formulate a plan to achieve these goals and to annually measure performance against these stated goals.

We intend to align ourselves to the ten principles of the UN Global Compact with respect to human rights, labour, environment and anti-corruption. In addition, in March 2021 we became a signatory to the UN Principles of Responsible Investment (“UN PRI”) to support providing, developing and promoting services that support asset owners and investment managers’ implementation of the six principles of the UN PRI, in particular as they relate to private debt.

Environment and climate change

Funding Circle is committed to addressing the impact of climate change. Despite the impact of Covid-19, we took a number of important steps in this area and there is more we want to do in the coming years. As a first step, the Board reviewed and approved a formal carbon strategy. Our strategy sets ambitious

but achievable goals to align our business to The Paris Agreement goals to target carbon reduction and offsetting strategies for our full value chain in line with the science based target level of decarbonisation required to limit global warming to 1.5°C, and striving for net-zero emissions by 2050 – at the latest. This first, important goal is the first objective step to provide clarity, motivation and focus to our goals. We are engaging with industry experts to more accurately measure and validate our scope 1, 2 and 3 emissions and to assist us in developing strategies to reduce, replace or offset our scope 1 and 2 emissions beginning in 2021. We also intend to begin to measure and validate our scope 3 emissions in 2021 and devise a strategy for reduction, replacement or offsetting of those emissions as soon as practicable.

We are also committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”) to inform our stakeholders about our climate-related financial risks and opportunities. The TCFD recommendations are structured around four core areas: governance, strategy, risk management, and metrics and targets. We intend to implement our approach to the TCFD recommendations during the course of 2021. The table on the next page shows our current progress against the recommendations.

Governance	Disclosure
Describe the board's oversight of climate-related risks and opportunities	The Board assumes overall responsibility and accountability for the management of climate-related risks and opportunities. During the year, the Board reviewed and approved a new ESG Framework to manage, among other things, the company's approach to governance around climate-related risks and opportunities. The Board also constituted a new ESG Committee to provide strategic focus, support and oversight for the implementation of the Group's environmental and carbon strategy. The GLT is responsible for the ESG Framework, including the climate-related risks and opportunities, with management responsibility sitting with the General Counsel. A working group of senior leaders and Directors from across the business are responsible for implementation of the environmental and carbon strategy.
Describe management's role in assessing and managing climate-related risks and opportunities	The principles of sound risk management are embodied in our values, operating principles and policies, which all employees are expected to follow. Our Enterprise Risk Management Framework ("ERMF") describes our risk management approach and provides for the clear ownership of and accountability for managing risk well across the company. A core principle of the ERMF is that all employees are accountable for identifying, escalating and debating risks facing the company. We have established a new ESG Framework to provide additional clarity and transparency around how we approach environmental risks, which may arise in many areas of our business. As part of our new ESG Framework we intend to review our ERMF, risk appetite statement, and risk taxonomy with respect to environmental risks in 2021.
Strategy	
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long-term	Our new carbon strategy formalises our approach to begin addressing climate-related risk and opportunities in our business, including clear and ambitious but achievable goals in the short and long-term, including: <ul style="list-style-type: none"> - alignment with The Paris Agreement Goal of 1.5°C; - a commitment to become carbon neutral by 2021–2023, and net carbon zero by 2030 – at the latest; - a goal to offset difficult to reduce or replace Scope 1 & 2 Emissions starting in 2021; - a goal to measure and verify Scope 3 Emissions starting in 2021; and - a goal to offset difficult to reduce or replace Scope 3 emissions starting in 2023 at the latest.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	Climate-related risks and opportunities are to be further integrated into our business, strategic and financial planning as part of our new ESG Framework in 2021.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	As part of our new ESG Framework, we intend to review our risk assessment and risk appetite in respect of environmental and climate related risks in 2021, including climate-related scenario analysis as part of this risk assessment.
Risk Management	
Describe the organisation's processes for identifying, assessing and managing climate-related risks, and how the processes are integrated into the organisations overall risk management	We consider climate-related risks through the ERMF. As part of our new ESG Framework we intend to review integration of climate-related risks into our ERMF in 2021.
Metrics and Targets	
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Absolute and intensity-based energy and GHG emission metrics are disclosed in our Annual Report.
Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	2020 Scope 1 and 2 GHG emissions are disclosed in our Annual Report. We intend to begin to more accurately collect, measure and validate Scope 1, 2 & 3 emissions in 2021.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	As part of our new carbon strategy, we intend to set clear, science-based targets to support our strategic ambitions of net carbon zero by 2030 at the latest. We intend to explore further opportunities during 2021.

Sustainability continued

Disclosing our impact

This section includes our mandatory reporting of greenhouse gas emissions pursuant to The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We are required to show an intensity ratio and have determined that the most appropriate for our growing business is tonnes of CO₂ equivalent ("tCO₂e") per £m of total income.

Global GHG emissions data for period 1 January to 31 December 2020	2020 tCO ₂ e	2019 tCO ₂ e
GHG emissions scope 1 (direct) ¹	123	147
GHG emissions scope 2 (indirect) ²	372	493
Total gross emissions (scope 1 and 2)	495	640
Total income (£m)	222.0	177.3
Intensity ratio – tCO ₂ e per £m of total income ³	2.23	3.61

1. Scope 1 includes combustion of fuels and operations of facilities, principally oil and gas related to our leased office space.

2. Scope 2 includes electricity purchased for use in connection with our leased office space.

3. The intensity ratio for this reporting period is calculated using total income. In 2019, the intensity ratio was calculated using total revenue, a financial item no longer reported in our Consolidated Statement of Comprehensive Income. The 2019 intensity ratio presented as a comparative has therefore been restated to be calculated based on total income.

Regional breakdown of energy consumption data for period 1 January to 31 December 2020 (Kilowatt-hour equivalent – kWh) ¹	Scope 1 ²		Scope 2 ³	
	2020	2019	2020	2019
Region				
UK	370,846	380,719	927,189	954,078
US	295,981	421,159	686,193	855,662
CE (Germany and Netherlands) ⁴	–	–	72,132	132,506
Total	666,827	801,878	1,685,514	1,942,246

1. The equivalencies for kWh shown are derived from our various leased office space premises using information provided by the applicable building owner or building management companies, which in some cases may apply different equivalency calculators to derive the applicable kWh amounts.

2. Scope 1 includes combustion of fuels and operations of facilities; principally oil and gas related to our leased office space.

3. Scope 2 includes electricity, heat, steam and cooling purchased for use in connection with our leased office space.

4. No Scope 1 data was reasonably attainable in CE for these reporting periods.

The effects of the pandemic had a significant impact on the operation of our offices and resulted in a significant reduction in our carbon emissions in 2020. To ensure the health and well-being of our people, we switched to working remotely in line with government guidance, resulting in a decrease of our Scope 1 and 2 emissions of approximately 22%. While we have not specifically measured our Scope 3 emissions, we also saw a significant reduction in business travel, particularly air travel, in favour of online communication platforms.

Our GHG emissions reporting period is 1 January to 31 December and is aligned with our financial reporting year. We report on certain material emission sources that we are responsible for within our Group companies, primarily in relation to our leased office space and generally limited to electricity and gas usage. We believe these encompass the most material emissions to our business, but

this data does not include all sources of emissions, for example waste, fugitive refrigerants or other miscellaneous and less material sources of emissions. Our emissions reporting data is from our global operations, including the UK, US, Germany and The Netherlands.

Our methodology underlying our disclosed emissions remains consistent with previous years. Emissions related to our office space are estimated based on an allocation of total emissions (generally based on square footage occupied) for the building as reported by the building owner. We did not undertake any specific measures to reduce our emissions during the period; however, we did begin the process to address our GHG emissions within our ESG framework, which are intended to include improvements to the collection, measurement, validation and reporting of emissions data as well as tracking and reporting progress against targets for reduction or offsetting of emissions.

Creating value for society

Covid-19 proved to be a major disruption to our planned charitable activities in 2020, with most events and initiatives cancelled in order to protect the health of everyone involved. We are hopeful that we will be able to begin returning to these activities in 2021, but the health and safety of our people will remain our key focus. The pandemic couldn't completely block the passion of Circlers and the FC Impact team though, as we raised money for food banks and held virtual workshops on zero-waste living among other activities.

Being a positive force in our industry

Our aim is for Funding Circle to continue to be a trusted and reputable company, working with government, regulators and industry to uphold the highest industry standards. We continue to actively engage with local, national, federal and supra-national government agencies, legislators, policymakers and industry groups to provide insight and policy leadership in connection with policy and rulemaking related to issues affecting small businesses, investors and the wider FinTech industry. We submit position papers, and participate in expert hearings and consultations, forums and other forms of policy engagement.

In 2020, we campaigned for SMEs by working with the industry and government to shape the support and access to finance that was available. This included the government-guaranteed loan schemes in both the US and the UK, and BBLS forbearance measures in the UK. Funding Circle also became a member of UK Finance, the trade association for the financial services sector, and the Confederation of British Industry, a broader business advocacy group. Our membership of FinTech industry body Innovate Finance and lending platform 36H Group also helps to amplify the important role that FinTechs play in the UK. In the US, we engaged with regulators and legislators as founding members of the Innovative Lending Platform Association and member of the Responsible Business Lending Coalition, primarily focusing on SME access to capital, disclosure and more recently access to government-guaranteed loan schemes for SMEs. This further boosted our ability to influence, and play a key role in, creating better results for SMEs.

Additional commitments

As part of our broader commitments as a progressive and responsible company, we also take a stand on the following 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 implemented a new 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.

Engaging our stakeholders

We actively engage with all of our stakeholders

We are committed to building open and constructive relationships with all our stakeholders. Our shared mission with business owners, investors, and our own people is to ensure that a vital, and historically underserved, part of our economy has access to the funding it needs to win.

In 2020, we adapted the ways we engaged with our stakeholders to ensure they continued to feel connected and supported throughout the pandemic.



Shareholders

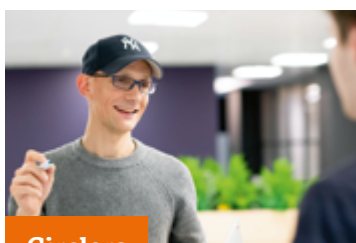
We maintain transparent and open engagement with shareholders at all times. This enables the Board to clearly communicate its strategy, provide updates on our performance and receive regular feedback.

How we engage

- Regular shareholder communications such as full and half year results, and ad-hoc trading statement updates.
- Analyst and investor meetings and presentations/investor roadshows, as well as ad-hoc meetings and events with larger shareholders and prospective shareholders.
- Due to Covid-19 restrictions, the 2020 AGM was closed to shareholders, but the Board is committed to enabling greater shareholder engagement at this year's AGM, subject to Covid-19 guidance, and looks forward to welcoming shareholders to our AGM in person in future years.
- The Chairman, Chief Executive Officer, Chief Financial Officer and Director of Investor Relations regularly communicate with larger shareholders and analysts as required and provide regular reports to the Board on shareholder interactions.
- The Chair of the Remuneration Committee engaged with our key shareholders regarding our Remuneration Policy.

Outcomes of engagement

Shareholders' opinions were taken into account in the shaping of Company strategy and our Remuneration Policy to be proposed to shareholders at the 2021 AGM.



Circlers

Our people are our business and we are committed to creating a culture where Circlers thrive and share in our mission, values and ambition.

How we engage

- Regular all-hands meetings for all Circlers including the weekly Global and Local Gatherings and bi-annual Full and Half Circle events, provide an opportunity for Circlers to share information and interact with senior management to hear about the Company's performance and response to Covid-19.
- Frequent meetings between Cath Keers, our workforce engagement Non-Executive Director, and employee groups, with employee representatives providing an update on those meetings to the Board and, in turn, updating Circlers on the feedback from the Board.
- Circler group FC Impact co-ordinates our internal volunteering and charity initiatives.
- Regular culture surveys, with results shared with the Board along with diversity reports and updates on diversity and inclusion initiatives.

Outcomes of engagement

We launched a new Circler Promise, **Build the Incredible**. Alongside this, we introduced a new benefits package and a new Equity for All share incentive plan. Our average employee satisfaction scores increased from 73% in 2019 to 75% in 2020.



Borrowers

SMEs are the growth engine of the economy, and it is our mission to help them fulfil their ambitions.

How we engage

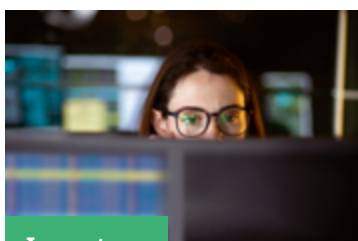
- Constant monitoring of customer feedback including customer satisfaction surveys.
- Regular focus groups with SME borrowers around product changes and new marketing campaigns.
- The Board reviews strategy and monitors performance in light of customer feedback, with the aim of meeting the needs of borrowers more effectively.
- Throughout the Covid-19 pandemic, we provided regular email updates, including on our accreditation to government SME guarantee programmes.

Outcomes of engagement

Net Promoter Score (NPS) of 80–90 for borrowers in the UK and US.

Section 172(1) statement

The Directors recognise that they have a duty to promote the success of the Company in accordance with s.172(1) of the Companies Act 2006. Further details on how the Board operates and the way in which it reaches decisions, including the matters discussed and debated during the year, are set out in the Governance section on pages 51 to 65. Some examples of how the Directors have had regard to the factors set out in section 172(1)(a)-(f) when discharging their duties are on page 61.



Investors

Providing resilient returns to a wide range of investors is a central part of our strategy.

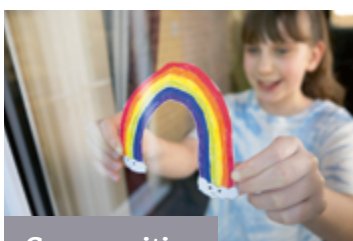
How we engage

- We provide bi-annual reporting on loan performance including on our website. These are updated in line with our full and half year results.
- We provide information and support to retail investors in a range of accessible formats. In response to Covid-19, the Chief Risk Officer provided regular updates on our strategy to protect returns.
- Active investor engagement on their direct lending, investment products as well as the wider investment community.

Outcomes of engagement

We onboarded a number of new institutional investors, including banks and asset managers, which has further diversified our investor base and funding sources.

£2.5 billion investor capital raised since the start of Covid-19 to lend to UK and US SMEs.



Communities

The SMEs we serve are at the centre of our communities and we are passionate advocates of charitable causes and issues related to social impact and community engagement.

How we engage

- Continual development and implementation of our ESG strategy, including developing our understanding and priorities in respect of engagement with our various stakeholders.
- Regular meetings with investors regarding their ESG investment criteria as they apply to our loans and loan-backed investment products.
- Circler group FC Impact co-ordinates our internal volunteering and charity initiatives.
- Covid-19 meant we had to adapt our planned charitable and community activities in 2020 to ensure the health and well-being of everyone involved.

Outcomes of engagement

We launched our new ESG strategy, which sets out a formal framework for operating as a responsible business and will be overseen by our newly formed ESG committee. We were also able to hold virtual workshops with stakeholders from the charity sector and continue to raise money and awareness for local foodbanks through campaigns from the FC Impact team.



Government and regulators

Our goal is for Funding Circle to always be known as a trusted and reputable company, and to work with regulators and industry to ensure best practice.

How we engage

- Engagement with local, national, federal and supra-national government agencies including regulators, legislators, policy makers and industry groups to provide insight and leadership in connection with policy and rulemaking related to issues affecting SME borrowers, investors or lending in the FinTech industry.
- We contribute to the discourse and debate on industry issues, including submitting position papers and participating in expert hearings, consultations, forums and other policy engagement initiatives.
- The Board ensures it uses the results of the above engagement as well as the key legal and regulatory changes affecting the business to inform its strategy and decision making.

Outcomes of engagement

We worked with the British Business Bank in the UK and the Small Business Administration in the US to become one of the first UK FinTechs to be an accredited CBILS and PPP lender. We also worked with industry to shape the Recovery Loan Scheme and forbearance measures under BBLs in the UK.

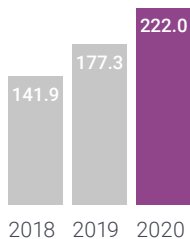
Delivering our strategy

Financial

Statutory

Total income (£m)

£222.0m



Links to strategy:

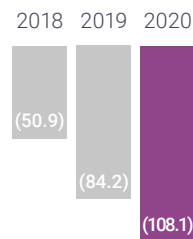


Definition

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

Loss before tax (£m)

£(108.1)m



Links to strategy:

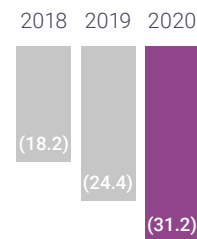


Definition

Loss before tax is defined as net income after taking into account all operating expenses and finance income, costs and share of loss of associates.

Loss per share (pence)

(31.2)p



Links to strategy:



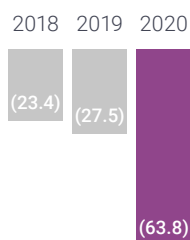
Definition

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")

Adjusted EBITDA (£m)

£(63.8)m



Links to strategy:

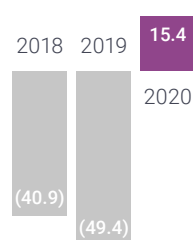


Definition

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. This is the principal profit measure used by the Directors in assessing financial performance in the Group's three geographical segments.

Free cash flow (£m)

£15.4m



Links to strategy:



Definition

Free cash flow represents the net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows. The Directors view this as a key liquidity measure and is the net amount of cash used or generated to operate and develop the Group's platform each year.

2020 saw us come to the end of our medium-term plan; FC 2020 and we delivered against our 4 existing strategic priorities. Our new plan is based on two key pillars of grow the UK and US business and launch new products and impacts all KPIs illustrated.

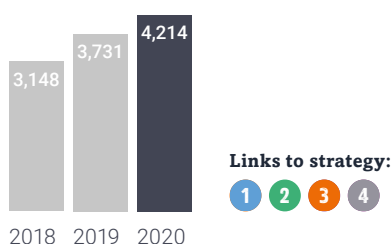
Focus areas relevant to our KPIs

- 1 The roll-out of our Instant Decision Lending platform
- 2 Investment in data, technology and analytics
- 3 Draw on our diverse investor base and continue to attract new investors to the platform
- 4 Build our base of SMEs and introduce changes to accelerate the path to profitability

Operational

Loans under management (£m)

£4,214m +13%

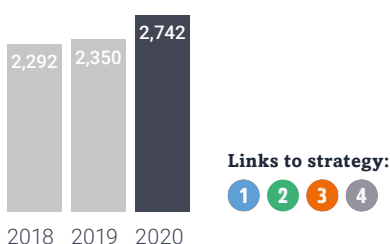


Definition

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)

£2,742m +17%

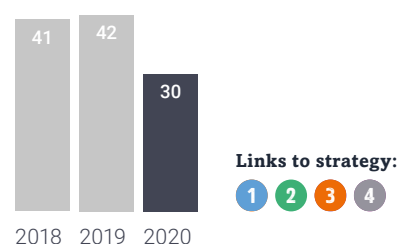


Definition

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

Marketing costs as a % of operating income

30%



Definition

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



SUPPORTING BUSINESSES

BREWING UP GROWTH ONLINE

Wild Card Brewery

Andrew Birkby and William Harris launched Wild Card Brewery after making their own beer from a home brew kit. They took a shot in the notoriously difficult industry, renting equipment at an Essex brewery in 2012.

Eight years on, and with the help of one of the UK's few female master brewers, Jaega Wise, Wildcard is now an award-winning business turning over more than £1.2 million per year.

To help with working capital, the brewers used Funding Circle on three occasions, including through the Coronavirus Business Interruption Loan scheme.

On the day of the first UK lockdown started they opened an e-commerce store and started delivering to doorsteps straight away. Their online shop has continued to grow ever since and in 2020, the business grew by 12% despite the challenges of lockdown.

Our results

“

In 2020, the Group delivered total income growth of 25% to £222.0 million. Loans under management grew 13% to reach a record £4,214 million with originations growing 17% to £2,742 million.



Overview

	Loans under Management (as at 31 December)		
	2020 £m	2019 £m	Change
United Kingdom	3,271	2,583	27%
United States	759	882	(14%)
Developing Markets	184	266	(31%)
Total	4,214	3,731	13%

	Originations (year ended 31 December)			Originations (half year ended)	
	2020 £m	2019 £m	Change	H1 2020 £m	H2 2020 £m
United Kingdom	2,111	1,556	36%	662	1,449
United States	581	619	(6%)	410	171
Developing Markets	50	175	(71%)	40	10
Total	2,742	2,350	17%	1,112	1,630

2020 was a year of two halves as shown in the originations table above. The year started strongly with originations at the high end of expectations with strong demand for SME loans in the UK, following Brexit and the General Election in 2019, and in the US where originations in January and February were the highest levels seen for 12 months.

With the emergence of the pandemic and associated impact on economic activity, originations were impacted significantly during March and April as we waited for approval for the SME government guarantee programmes in the UK and the US. Total originations rebounded strongly from May onwards, following accreditation to these programmes, and reached record levels. Overall, loans under management were £4,214 million as at 31 December 2020, a 13% increase on 2019. Total originations increased by 17% to £2,742 million.

Geographic highlights

United Kingdom

Following the impact of Covid-19 in March 2020, the Government introduced the Coronavirus Business Interruption Loan Scheme ("CBILS"), which provides an 80% government guarantee to investors. Funding Circle received accreditation to this scheme in late April 2020 and started lending in May 2020. Under the scheme's rules, retail investors are not permitted to invest in CBILS loans.

As we started to operate under the scheme, we paused all non-CBILS lending. From May 2020, and through the rest of the year, the UK secured a number of funding agreements with institutional investors such that we were able to meet the high demand from SME borrowers.

As at 31 December, we had originated c.£1,700 million of CBILS loans. In addition to the CBILS accreditation, we also received accreditation to originate loans under the Government's Bounce Back Loan scheme in July 2020 but this was only made available to existing Funding Circle borrowers and represented c.£27 million of loans.

In 2020, loans under management rose by 27% to £3,271 million whilst originations grew by 36% to £2,111 million. The UK delivered total income growth of 37% to £153 million in 2020, benefiting from a full year of investment income from the ABS products first launched in June 2019, alongside increased transaction fees driven by the high demand for CBILS loans.

Despite the fair value loss in H1 2020 Adjusted EBITDA for the UK business was positive at £6.5 million. Adjusted EBITDA profit in H2 2020 was £28.6 million compared to Adjusted EBITDA loss in H1 2020 of £22.1 million. The UK business was also operating profitable in H2 2020.

HM Treasury announced in November 2020 that CBILS will be extended to March 2021, with applications made prior to 31 March 2021 being processed in April and May 2021. In March 2021, HM Treasury announced that CBILS and BBLs would end on 31 March and be replaced by a new 80% SME guarantee loan scheme called the Recovery Loan Scheme.

United States

The US business had a strong beginning to the year with January and February being our highest months for originations for 12 months. In April 2020, the US Government introduced its Paycheck Protection Program ("PPP") through the Small Business Administration ("SBA") programme. Under this scheme, the SBA will forgive the loans if the funds are used to pay eligible expenses such as payroll costs of employees. The US business was approved by the SBA to originate PPP loans during April 2020.

Following approval the US business originated \$474 million from May 2020 through to August 2020 when the scheme paused awaiting the next round of stimulus packages from the Government. The US initially funded these loans under two models; the core model and a referral model whereby it refers borrowers that meet their eligibility criteria to other institutions. PPP loans are 100% guaranteed and the average transaction fee across the two models was 3.15%.

By July 2020, the US business was granted access to the use of the Federal Reserve's PPP liquidity facility. This allows for lending to be undertaken with funds coming directly from this facility. The US originated £24 million of loans through this facility during 2020. When loans are forgiven by the SBA, the debt associated with them from the facility is also extinguished.

As anticipated, borrower demand was suppressed from August to December due to uncertainty over whether there would be further PPP lending. We relaunched our core lending product in December and continued to offer our referral model during the second half of the year. Overall for the year, loans under management decreased by 14% to £759 million with overall originations down 6% at £581 million.

The US Government approved a new round of stimulus measures in December 2020 and, following the relaunch of the PPP programme in January 2021, the US business funded loans directly from the Federal Reserve PPP liquidity facility. Once PPP finishes, we will continue to grow our Core lending product, originate long term government guarantee loans through the SBA programme on behalf of banks and continue to operate our referral model for other borrower needs.

Total income for the US was £63 million (2019: £52 million) up 20% year on year, again benefiting significantly from a full six months of investment income from the new investment products. AEBITDA was negative £62.4 million (2019: £22.0 million) largely driven by the significant fair value adjustment in H1 2020 of £61.3 million and the slowdown in trading in the final quarter of the year whilst waiting for government stimulus to restart. In H2 2020, the fair value adjustment was negative £13.2 million.

In July 2020, the Group announced the reorganisation of the US business centralising the US technology team in the UK and moving sales and marketing to Denver to accelerate its path to profitability, with a net reduction of 85 roles. This resulted in £1.5 million in relation to reorganisation costs including right-of-use asset impairment and £12.0 million in relation to the impairment of goodwill associated with the US business which were recognised as exceptional items in the year.

Developing Markets

In March 2020, the Group announced the decision to restructure the Developing Markets business to a referral only model where loans would be referred to lenders rather than originating loans for institutional and retail investors. As part of the restructure, we centralised operations in London. The restructure was completed successfully and the business was AEBITDA breakeven in H2 2020. Due to the impact of Covid-19, the Group decided not to scale up the new model and headcount numbers in London, which resulted in a limited number of loans originated. Costs associated with the reorganisation of £5.2 million were recognised within exceptional items in the year.

Finance review continued

Finance review

Overview

Group total income was £222.0 million (2019: £177.3 million), up 25%. Net income for the year was £103.7 million (2019: £167.4 million). Net income is less fair value movements on SME loans held for sale.

AEBITDA loss was £63.8 million (2019: loss £27.5 million). H1 AEBITDA loss was £84.1 million, which comprised of negative £24.4 million operating AEBITDA¹ and negative £59.7 million investment AEBITDA¹, driven by a large fair value adjustment on SME loans held for sale. This compared to a strong AEBITDA profit in H2 2020 of £20.3 million, which comprised of £12.6 million operating AEBITDA and £7.7 million investment AEBITDA.

The Group's operating loss was £106.3 million for the full year (2019: £84.7 million loss). H1 2020 operating loss was £113.5 million, compared with an operating profit in H2 2020 of £7.2 million. Before exceptional items of £18.7 million in 2020 for the restructuring of the European business (£5.2 million), restructuring cost in the US business (£1.5 million) and US goodwill impairment (£12.0 million), the operating loss was £87.6 million (2019: £50.4 million loss).

1. Adjusted EBITDA represents EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) excluding share-based payments, exceptional items and foreign exchange gains or losses. Investment AEBITDA refers to net investment income (being investment income, investment expense and fair value adjustments) as previously reported and operating AEBITDA represents AEBITDA excluding investment AEBITDA.

Profit and loss

	31 December 2020			31 December 2019		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Transaction fees	122.5	—	122.5	121.2	—	121.2
Servicing fees	30.2	—	30.2	30.4	—	30.4
Other fees	3.0	—	3.0	5.3	—	5.3
Fee income ("operating income")	155.7	—	155.7	156.9	—	156.9
Investment income	89.0	—	89.0	28.3	—	28.3
Investment expense	(22.7)	—	(22.7)	(7.9)	—	(7.9)
Total income	222.0	—	222.0	177.3	—	177.3
Fair value (losses)/gains	(118.3)	—	(118.3)	(9.9)	—	(9.9)
Net income	103.7	—	103.7	167.4	—	167.4
People costs	(81.3)	(4.0)	(85.3)	(90.3)	—	(90.3)
Marketing costs	(46.8)	—	(46.8)	(66.5)	—	(66.5)
Depreciation, amortisation and impairment	(17.2)	(13.7)	(30.9)	(14.9)	(34.3)	(49.2)
Loan repurchase charge	(6.2)	—	(6.2)	(6.5)	—	(6.5)
Other costs	(39.8)	(1.0)	(40.8)	(39.6)	—	(39.6)
Operating expenses	(191.3)	(18.7)	(210.0)	(217.8)	(34.3)	(252.1)
Operating loss	(87.6)	(18.7)	(106.3)	(50.4)	(34.3)	(84.7)

Total income

The Group delivered total income of £222.0 million (2019: £177.3 million) up 25%. Total income represents operating income and investment income, less investment expense.

Operating income includes transaction fees, servicing fees, and other fees and was £155.7 million (2019: £156.9 million).

Transaction fees, representing fees earned on originations, grew 1% to £122.5 million. This was driven by higher originations in the UK, offset by lower yields on CBILS loans which are fixed at 4.75% together with the lower originations in the US,

where the majority were generated through the marketplace (referral) model driving average yields in the US to 3.7% for the year (2019: 5.4%).

Servicing fees, representing fees for servicing loans under management, remained flat at £30.2 million. With a large proportion of the UK originations occurring in the second half of 2020, the impact on the UK's servicing fees will be more pronounced in 2021. Servicing yield was 0.8% compared with 0.9% in 2019 as servicing fees are not earned when Funding Circle is servicing its own loans in warehouses and securitisation vehicles that are on balance sheet.

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.

Net investment income² represents the investment income, less investment expense, on loans invested within Funding Circle's investment vehicles and was £66.3 million (2019: £20.4 million). This is significantly higher than 2019 as these programmes only commenced in June 2019.

Net income, defined as total income after fair value adjustments, was £103.7 million (2019: £167.4 million). The Group considers a large proportion of this negative fair value movement of £118.3 million was attributable to the impact that Covid-19 economic stress had on SME borrowers. The fair value adjustment in H1 2020 was £96.1 million, compared with H2 2020 of £22.2 million.

2. We have redefined net investment income, first described in the 2019 financial results, to be investment income less investment expense. Investment AEBITDA is net investment income less fair value (losses)/gains.

Operating expenses

Cost management initiatives led to a 12% decrease from H1 2020 to H2 2020. Overall operating expenses for the full year were £210.0 million (2019: £252.1 million). 2020 operating expenses included certain exceptional items driven by goodwill impairment and restructuring costs of the Developing Markets and the US business. Excluding these items, operating expenses were down £26.5 million to £191.3 million (2019: £217.8 million) principally driven by salary related savings following the restructurings and reduced marketing spend.

People costs (including contractors) which represent the Group's largest ongoing operating cost decreased during the year by 9% to £94.7 million, before the capitalisation of development spend. This was driven by a decrease in average headcount of 14% and includes total exceptional costs related to the reorganisation of the US and Developing Market businesses of £4.0 million. The share-based payment charge for the year, included in people costs, was lower at £5.6 million (2019: £8.0 million) driven by credits from leavers as part of the US and Developing Markets restructuring of which £1.0 million is recognised in exceptional items.

	31 December 2020 £m	31 December 2019 £m	Change %
People costs	94.7	104.6	(9%)
Less capitalised development spend ("CDS")	(9.4)	(14.3)	(34%)
People costs net of CDS	85.3	90.3	(6%)
Average headcount (incl. contractors)	1,002	1,165	(14%)
Year-end headcount (incl. contractors)	863	1,139	(24%)

Marketing costs decreased in the year from £66.5 million in 2019 to £46.8 million in 2020 as the Group managed discretionary marketing spend tightly. Marketing spend overall was 30% of operating income during the year (2019: 42%).

Depreciation and amortisation costs of £30.9 million (2019: £49.2 million) largely represent the amortisation of the cost of the Group's capitalised technology development and impairment of goodwill.

A charge of £12.0 million was recorded in H1 2020 in respect of the goodwill of the US business (2019: £29.0 million in respect of the Developing Markets goodwill and £5.3 million with respect to other non-financial assets). 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.

An exceptional impairment charge of £1.7 million was also recognised in relation to the impairment of right-of-use property related assets driven by the reorganisation of the US and Developing Markets businesses.

Loan repurchase charges relate to certain historical circumstances when in new markets, predominantly Germany and the Netherlands, Funding Circle entered into arrangements to buyback certain defaulted loans from certain financial institutions under a loan purchase commitment. In return the business has received a fee premium (reflected in Other fees). Under IFRS 9 this commitment is accounted for under the expected credit loss model.

Other costs principally includes cost of sales, data and technology costs and property costs and remained broadly flat year on year.

Operating loss was £113.5 million in H1 2020. In H2 2020, we made an operating profit of £7.2 million. This led to an overall operating loss for the full year of £106.3 million (2019: loss £84.7 million) due to the non-cash fair value adjustment on investments primarily as a result of the impact of Covid-19 and exceptional items related to the reorganisation of the US and Developing Markets businesses. Excluding exceptional items, operating loss was £87.6 million (2019: £50.4 million).

Finance review continued

Segmental reporting

During the year ended 31 December 2020 organisational changes led to greater ownership of costs being managed within geographies. As a result, the way the operating segment performance is reported to, and reviewed by, the Global Leadership Team was modified to allocate product development, corporate costs, depreciation and amortisation, share-based payments and exceptional items across the geographical segments.

The comparatives for the year ended 31 December 2019 have been restated to reflect the revised segmental presentation. The Group also reviews the results of the Group using Adjusted EBITDA as an alternative performance measure. The table below sets out a reconciliation between these measures and the statutory operating loss:

	31 December 2020				31 December 2019 (restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	152.9	63.0	6.1	222.0	111.6	52.4	13.3	177.3
Fair value (losses)/gains	(43.8)	(74.5)	–	(118.3)	(3.1)	(6.8)	–	(9.9)
Net income/(loss)	109.1	(11.5)	6.1	103.7	108.5	45.6	13.3	167.4
Segment adjusted EBITDA	30.2	(52.8)	(6.3)	(28.9)	34.0	(10.3)	(12.5)	11.2
Product development	(14.7)	(6.5)	(1.1)	(22.3)	(15.1)	(8.3)	(3.0)	(26.4)
Corporate costs	(9.0)	(3.1)	(0.5)	(12.6)	(7.9)	(3.4)	(1.0)	(12.3)
Adjusted EBITDA	6.5	(62.4)	(7.9)	(63.8)	11.0	(22.0)	(16.5)	(27.5)
Depreciation and amortisation	(9.4)	(6.5)	(1.3)	(17.2)	(8.0)	(5.2)	(1.7)	(14.9)
Share-based payments and social security costs	(5.0)	(1.2)	(0.4)	(6.6)	(5.0)	(2.7)	(0.3)	(8.0)
Exceptional items	–	(13.5)	(5.2)	(18.7)	–	–	(34.3)	(34.3)
Operating loss	(7.9)	(83.6)	(14.8)	(106.3)	(2.0)	(29.9)	(52.8)	(84.7)

Balance sheet and investments

As previously reported, in 2019 the Group launched new funding products whereby it aggregates loans in warehouses for sale as ABS bonds to widen the universe of investors that can access investment in Funding Circle loans.

The SME loans are held in bankruptcy remote warehouses and securitisation vehicles. The value of the investments are regularly assessed and have been impacted due to the stress of Covid-19 on SMEs.

Whilst total loans consolidated on balance sheet for accounting purposes is c.£560 million, Funding Circle's exposure is limited to its investment of £118 million (2019: £145 million). The investments are valued by discounting future cash flows and the Group may crystallise higher amounts in future periods as the discounting unwinds. The tables below breaks down the Group's balance sheet into its constituent parts:

	2020					Total £m	2019 Total £m
	Operating business £m	PPP Loans £m	Warehouse SPVs £m	Securitisation SPVs £m	Other investments £m		
Investment in SME loans	0.7	24.3	221.8	279.8	32.2	558.8	723.5
Cash	64.4	–	18.9	20.0	–	103.3	164.5
Other assets	–	–	–	11.1	–	11.1	8.4
Borrowing/bonds	–	(24.3)	(171.2)	(294.3)	–	(489.8)	(614.5)
Cash & Investments	65.1	–	69.5	16.6	32.2	183.4	281.9
Other assets	109.0	–	–	–	–	109.0	99.1
Other liabilities	(74.8)	–	–	–	–	(74.8)	(62.0)
Equity	99.3	–	69.5	16.6	32.2	217.6	319.0

Funding Circle has various investment vehicles it uses to invest in SME loans. Given the different risk dynamics, each vehicle is affected by Covid-19 economic stress in different ways.

The Group had warehoused loans in the US and UK during 2019 and securitised both of them in August 2019 and November 2019 respectively. In January 2020, the US undertook a second securitisation. When lockdowns began in March 2020, the Group had one UK warehouse at 100% of capacity and two US warehouses at a combined 30% capacity. Our invested capital increased following the 2019 year end, prior to the reassessment of the investment portfolio fair value in light of Covid-19. The fair value of each of these investments was assessed for the interim results in June 2020, with the resultant value determined to be £110 million collectively as shown below.

The Group values its investments using discounted cash flows that take into account projected cash flows from the underlying SME loans, which include principal repayment and prepayment rates and expected levels of default. Since the 30 June 2020, there has not been a significant deterioration in the expected level of defaults when these investments were revalued at 31 December 2020.

The table below provides a further breakdown of Funding Circle's investment in these vehicles:

Investment type	At 31 December 2019 £m	At 30 June 2020 £m	At 31 December 2020 £m
1. Securitisation SPVs (vertical)	13	18	12
2. Other Investments	13	16	32
3. Warehouse SPVs	94	66	70
4. Securitisation SPVs (horizontal)	25	10	4
Total	145	110	118

- 1) Securitisation SPVs (vertical): Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued (vertical). The vertical investments are measured at amortised cost.
- 2) Other Investments: There are a small amount of Other Investments, comprising seed investments in Private Funds and participation in investments in the UK CBILS programme. The increase since 2019 is principally driven by CBILS Investments.
- 3) Warehouse SPVs: In warehouses we deploy our equity and third party bank debt to aggregate loans temporarily prior to securitisation. The debt is senior which means the equity is more exposed to changes in the valuation of loans. When Covid-19 hit, the Group had one UK warehouse at 100% of capacity and two US warehouses at a combined 30% capacity. The intention was to securitise the SME loans in the warehouses but this was not feasible due to Covid-19.
- 4) Securitisation SPVs (horizontal): Once loans are securitised, we temporarily hold the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn greatest returns, but they also absorb losses first. As at December 2020, we held horizontals in three securitisations which were securitised in H2 2019 (UK and US) and H1 2020 (US). The timing of the pandemic meant that it was not feasible to dispose of all these horizontal tranches in 2020. Since June 2020, the Group sold a tranche of the UK vehicle for c.£4 million.

Cash flow

As at 31 December 2020, the Group held cash and cash equivalents of £103.3 million, down from £164.5 million at the end of 2019. Of the balance, £38.9 million (2019: £14.2 million) was held within the warehouse and securitisation vehicles. Included within the £61.2 million decrease, £20.9 million has been due to the co-investing in CBILS loans and £57.9 million invested into the ABS vehicles principally in the first quarter of the year prior to Covid-19.

As at 31 December 2020, the Group was due net £27 million, of transaction fees which were subsequently received in February 2021.

Free cash flow, which is an alternative performance measure, represents the net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows.

Free cash flow has principally improved due to operating cash flows from transaction fee income and investment income while controlling marketing and people costs year on year.

The table below shows how the Group's cash has been utilised:

	2020 £m	2019 £m
Adjusted EBITDA	(63.8)	(27.5)
Fair value adjustments	118.3	9.9
Purchase of tangible and intangible assets	(10.3)	(17.2)
Payment of lease liabilities	(7.8)	(7.1)
Working capital/other	(21.0)	(7.5)
Free cash flow	15.4	(49.4)
Net investment in associates	2.3	(13.9)
Net investment in trusts	(20.9)	–
Net investment in warehouses	(234.0)	(79.3)
Net investment in securitisations	176.1	(27.7)
Other	0.2	3.9
Effect of foreign exchange	(0.3)	(2.1)
Movement in the year	(61.2)	(168.5)
Cash and cash equivalents at the beginning of the year	164.5	333.0
Cash and cash equivalents at the end of the year	103.3	164.5

Successfully navigating the crisis with focus and determination



2020 has been a formidable test of our risk management capabilities given the pandemic and the resulting credit stress. The magnitude and speed of the pandemic, and the breadth of impacted regions and sectors, created significant challenges with an unprecedented rise in SME borrowers seeking support. Funding Circle reacted swiftly to the situation by offering forbearance plans to customers in difficulty, augmenting capacity in the collections department and tightening credit parameters for new lending. We were quickly accredited to offer CBILS loans in the UK and PPP loans in the US to support our customers and the broader economy diligently, thanks to our adaptable online lending capabilities.

We are pleased to see that the majority of customers who needed help have resumed repaying their loans, and as of December 2020, 93% of UK and US businesses are making payments. This turnaround is the result of active efforts to engage with our borrowers and investors to provide loan-curing solutions, and speaks to the intrinsic credit quality of the portfolio of loans we had originated before the crisis.

The credit environment remains uncertain in all our markets and highly dependent on the development of the pandemic and the efficacy of vaccines and government measures. Our central stress scenario outlook for now is a prolonged economic crisis with gradual credit de-stressing over 2021–2022. Under such a scenario, we have simulated that all historical annual cohorts of unsecured loans originated in the UK and the US should still deliver positive lifetime returns to investors. We are also confident that government-guaranteed loans issued during the crisis will deliver satisfactory returns to investors, due to adapted credit criteria and the loss protection through the guarantee. Finally,

under such circumstances, we believe that we can re-start offering unsecured loans to low risk segments through the course of 2021.

Despite the complexity involved in carefully managing our historical loan portfolio whilst pivoting our lending processes to distribute government-guaranteed loans, we have also made good progress in strengthening our risk management framework. In 2020, we have:

- reduced process risks through increased automation and enhanced controls, leading to fewer instances of loan repurchases related to operational errors;
- developed more sophisticated governance and controls to manage our funding and balance sheet risks, recognising the growing materiality of our balance sheet positions as we diversify our funding sources into securitisation;
- refined our model risk governance and controls including more granular performance monitoring and data quality controls;
- strengthened our data governance and security controls including rolling out a new data governance tool; and
- continued to enhance our financial crime and fraud prevention tools to ensure strong controls and compliance with regulation.

Overall, we are proud of the good work accomplished in 2020 across the organisation to keep our employees, borrowers and investors safe at a time of high disruption. The future is highly uncertain and we will remain very vigilant. We have demonstrated we can be resilient and adapt well to exceptional conditions, and we will continue to navigate this crisis with focus and determination.

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 Company, our shareholders, our customers and fellow Circlers.

At Funding Circle all employees, regardless of their position, play their part in managing risk within the business. A strong risk culture enables us to manage the risks inherent to our business activities seamlessly, every day, through the active participation of all. 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 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 Global Chief Risk Officer ("CRO"), Jerome Le Luel, 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 adapt to changes in the business environment.

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 clear risks aggregation to determine their overall impact to the organisation.

We have identified five principal risks:

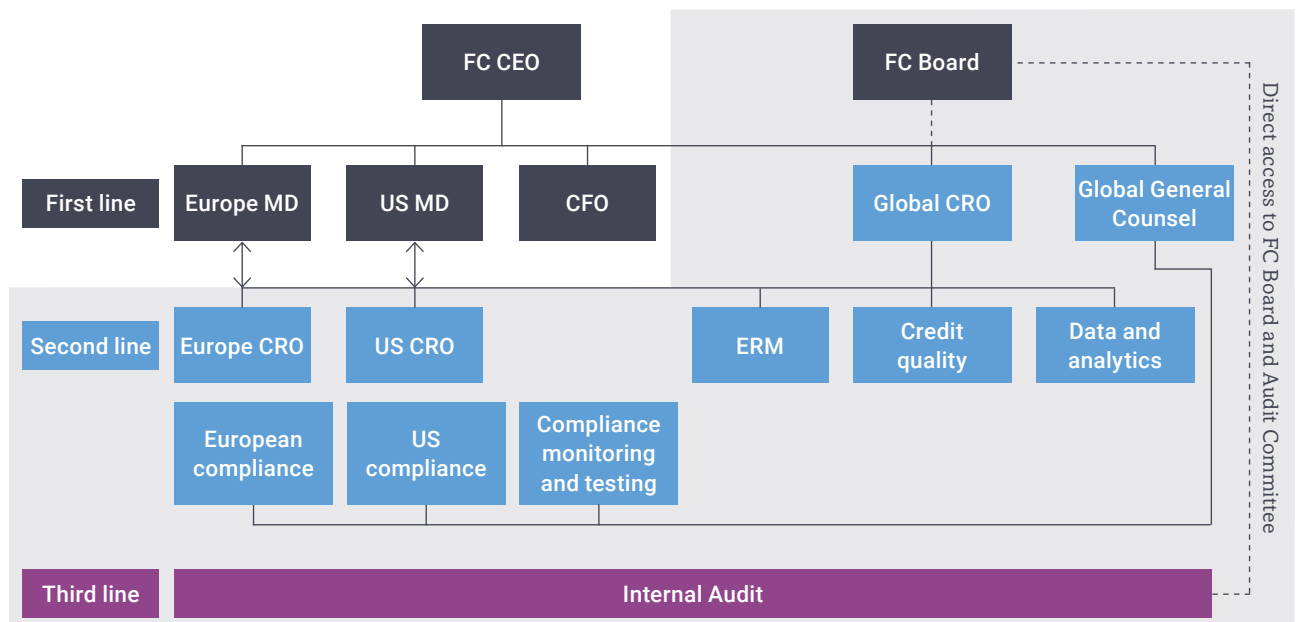


Risk governance

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 Group Board, the UK Board and Principal Risk Committees as appropriate.

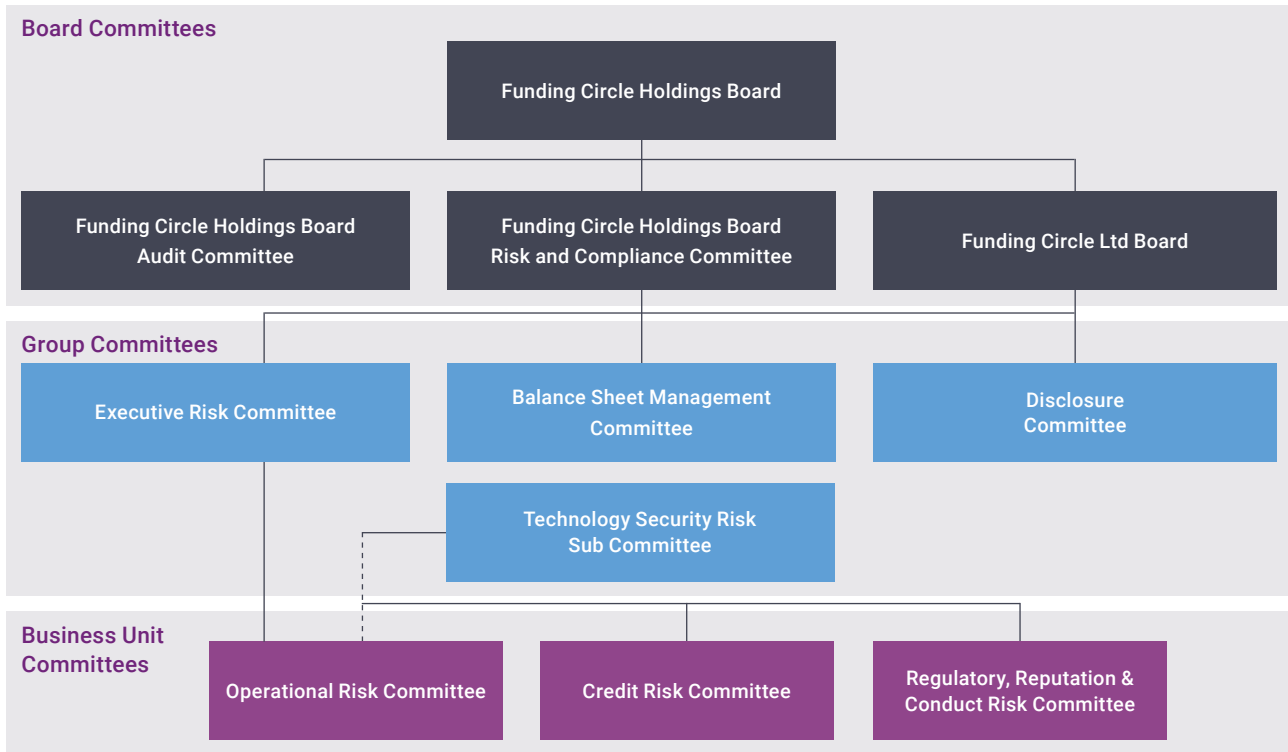
We operate a Three Lines of Defence model across all markets in which we operate. Funding Circle's Three Lines of Defence model and risk governance structure have been designed to manage our principal risks in a consistent manner across the Group, as set out below.

Three Lines of Defence



Risk management continued

Risk governance structure



The Board Risk and Compliance Committee (“RCC”) is supported by the Executive Risk Committee (“ERC”), comprising the members of the Global Leadership Team. The ERC has sub-committees focused on each principal risk, as set out below.

Executive Risk Committee

The ERC 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.

Balance Sheet Management Committee

The Balance Sheet Management Committee is responsible for oversight of funding risk and Group balance sheet risk.

Credit Risk Management Committee

The Credit Risk Management Committees focus is on ensuring that the credit risk of each Business Unit’s loan portfolio is adequately managed.

Regulatory, Reputation and Conduct Risk Committee

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

Operational Risk Committee

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

Disclosure Committee

The Board has delegated to the Disclosure Committee responsibility for overseeing the disclosure of information by Funding Circle to meet its obligations under the Financial Conduct Authority (“FCA”) Market Abuse Regulations, Listing Rules and 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 other stakeholders.

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 or 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 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 within appetite. At Funding Circle we have 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.

Risk assurance

Assurance on the management of risk is provided by the Three Lines of Defence model including the Internal Audit function. We also execute an external annual controls assurance report in the UK (ISAE3402) certified by auditors.

Principal risks and uncertainties

The Board confirms that throughout 2020 a robust assessment of the principal risks facing Funding Circle was completed. A comprehensive list of Group-wide risks and emerging risks was reviewed and monitored throughout the year. The most significant risks and uncertainties faced by Funding Circle are listed in the table below, categorised by principal risk:

Strategic risk

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

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		
<p>Financial risk that is associated with macroeconomic or political factors that may affect Funding Circle's financial and/or credit performance.</p>	<p>We continually monitor the health of our loan portfolios and perform stress test simulations to help ensure that investor returns remain resilient in the context of risk volatility. Key mitigating actions include (but are not limited to):</p> <ul style="list-style-type: none"> - annual stress testing of loan portfolios in each market; - resilient credit strategy and continuous tuning of risk and pricing parameters to correct for possible deviations in returns; - independent validation and continuous monitoring of the performance of credit risk models; - monthly monitoring of internal and external signals as part of the Credit Risk Management Committees; - agile capability to rapidly deploy pricing and credit strategy adjustments deemed necessary; - experienced in-house collections and recoveries capabilities with built-in scalability; and - with regards to government-backed programs, controls and audits of all guarantee eligibility criteria. 	<p></p> <p>The Covid crisis has severely impacted the economies where we operate (UK, US, Germany and the Netherlands), resulting in elevated credit stress across our SME markets.</p> <p>In this context, Funding Circle reviewed its credit strategy and decided to focus from April 2020 on government guaranteed loans, with tight underwriting parameters.</p> <p>Concerning the assets originated prior to Covid, the priority has been to offer forbearance programs to borrowers in difficulty whilst ensuring high performing collections through upsized capacity and increased productivity with technology.</p> <p>We have reflected this deteriorated credit environment in our forecasts and recorded an adverse fair value adjustment in respect of Funding Circle's own investment exposures.</p> <p>The Brexit deal with the EU and the conclusion of US elections remove some uncertainty in the short term, but new issues can arise. We are carefully monitoring the environment, and as the Covid situation normalises, we will update our credit outlook.</p> <p>As the environment improves, Funding Circle aims to resume lending in the course of 2021 outside of the government guaranteed programs, with appropriate credit parameters.</p>

Funding and balance sheet risk

Funding and Balance Sheet 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		
<p>The risk that borrower loan demands 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 FC loans as an investment, the level of diversification of funding sources and the level of resilience of these funding sources through economic cycles.</p>	<p>Funding Circle's business model is to be a lending platform that efficiently matches the supply of capital to the demand of SME borrowers.</p> <p>We carefully manage this matching by:</p> <ul style="list-style-type: none"> - building long term relationships with investors and developing a forward-looking pipeline of new investors; - actively managing concentration risk and diversifying sources of funding; - managing Funding Circle's lending activities whether through direct lending capacity, securitisation capacity or investment fund lending vehicles; - monitoring a broad range of management information and key performance indicators at the Balance Sheet Management Committee, RCC and Board; - leveraging a seasoned team for Capital Markets sales and transactions structuring; and - managing potential conflicts of interest between investors and Funding Circle. 	<p>→</p> <p>Given the launch of government guarantee loan programmes and lower investor demand, we stopped unsecured lending in the Covid environment; Funding Circle focused on government guaranteed lending.</p> <p>With government-backed loans, we on-boarded a range of new investor relationships – from banks through to asset managers.</p> <p>As CBILS lending is not available to retail investors, the retail platform in the UK was paused from March 2020.</p> <p>Overall, funding supply has been sufficient in 2020.</p> <p>There is some uncertainty about the securitisation market and investor appetite for government-guaranteed loans versus unsecured lending. We continue to work closely with investors on various loan product and transaction structure options and indications received so far suggest that investors would be keen to keep funding Funding Circle beyond current government-backed programs – subject to adequate terms.</p>

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 managements' 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
Balance sheet risk		
<p>The risk that Funding Circle investment positions reduce in value or cannot be exited at an economically viable price.</p> <p>The risk that Funding Circle liabilities cannot be met when and where they fall due or can only be met at an uneconomic price.</p>	<p>We carefully manage this risk by:</p> <ul style="list-style-type: none"> - setting clear guardrails for FC balance sheet; - 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 Balance Sheet Management Committee and RCC; and - developing a dedicated and effective Balance Sheet Management function. 	 <p>Our overall approach to having a robust balance sheet and prudent management of liquidity remains unchanged.</p> <p>The pandemic resulted in a material fair value impact on some investment positions held by Funding Circle held with the intention to sell and temporarily disrupted the market for such investments. The liquidity and appetite for these investments is expected to improve in 2021.</p> <p>We have sufficient disposable cash to cover our liquidity needs, including when tested against stressed liquidity scenarios.</p>

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

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, 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, 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 model risk (including the independent validation and monitoring of credit scoring models);
- performing annual stress tests with high quality standards; and
- with regards to government programs, tightly controlling adherence to eligibility criteria.



There is an increased credit risk of borrowers not meeting their repayment obligations due to the impact of lockdowns and continuing economic slowdown. This can lead to an increase in credit defaults and a decrease in investor net returns.

Investor net returns are also contingent on the continuous effectiveness of collections and recoveries activities during the crisis.

To account for these risks, we have paused unsecured lending and intensively managed the historical book through customer service and collections. For this purpose, we have increased staffing and adapted our collections capabilities and tools to help borrowers in difficulty.

In the case of government-backed loans, credit risk significantly reduces for new borrowers acquisitions, thanks to the credit loss reduction guarantee offered by these programs, and those loans have formed the majority of our lending in 2020.

Principal risks and uncertainties continued

Regulatory, reputation and conduct risk continued

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Regulatory risk		
<p>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.</p>	<ul style="list-style-type: none"> - We remain vigilant 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 educating 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. - We have expanded our teams focusing on governance and controls, and continue to train all employees in such matters as are relevant to their role. 	<p></p> <p>There is increased regulatory scrutiny as a result of the economic uncertainty and the perceived increased risk to viability of firms.</p> <p>The volume of collections activity also poses an increased regulatory risk regarding the adequate management of borrowers in difficulty.</p> <p>Proactive engagement with the regulators continues.</p>
Reputation risk		
<p>Operational or performance failures could lead to negative publicity that could adversely affect our brand, business, results, operations, financial condition or prospects.</p>	<p>We continue to implement and maintain business practices and controls focused on reputation management, including:</p> <ul style="list-style-type: none"> - 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. 	<p></p> <p>There is heightened reputational risk from pursuing collections from borrowers, who have missed payments.</p> <p>Forbearance measures have been offered to help borrowers in difficulty in an empathetic way and processes for dealing with vulnerable customers have been reviewed and enhanced.</p> <p>Quality monitoring and training have also been enhanced in our collections and recoveries department.</p>
Conduct Risk/Treating Customers Fairly		
<p>Funding Circle's activities (or the failure to satisfactorily perform its activities) could impact the delivery of fair customer outcomes.</p>	<ul style="list-style-type: none"> - Improvements have been made to the way in which loan performance is reported and additional oversight and controls have been implemented. - Code of Conduct launched in US and UK and conduct rules training developed and rolled out across the UK business. - Further investments have been made in our Compliance Monitoring and Testing and the Internal Audit function has been enhanced with the hire of a Head of Internal Audit with an internal team. - There has also been an overhaul of complaints handling and reviews of other customer-impacting topics such as collections, recoveries and litigation and vulnerable customers. 	<p></p> <p>Complying with applicable laws and regulations and ensuring positive customer outcomes continues to be a fundamental priority for Funding Circle.</p> <p>Despite the challenges of oversight and monitoring of employees and controls in a remote environment, we do not consider this risk to have increased.</p>

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
Process risk		
<p>Failure to originate and service loans in line with Funding Circle internal policies, investor guidelines and third party loan guarantees (e.g. British Business Bank, Small Business Administration) may result in Funding Circle repurchasing loans from investors.</p>	<p>We actively manage process risk by:</p> <ul style="list-style-type: none"> - continuing to automate key controls; - performing robust first line quality assurance and secondary checks on manual processes; - reviewing Key Risk Indicators as part of the Business Unit Operational Risk Committee; - performing independent quality control checks; and - implementing adequate policies and procedures. 	<p>→</p> <p>Funding Circle implemented new processes to support government-backed lending schemes.</p> <p>There is a risk of operational errors leading to loans becoming ineligible for government guarantees and that may result in repurchasing loans from investors, with a potential impact on Funding Circle's financials.</p> <p>We have implemented robust controls, as well as independent quality checks to ensure that all loans originated under government schemes are fully compliant with eligibility requirements.</p> <p>We also have external 3rd Party audits to ensure full compliance with government schemes.</p> <p>Monitoring and oversight of government-backed loan programs is also in place to ensure ongoing program compliance.</p>
Information security		
<p>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.</p>	<ul style="list-style-type: none"> - Our Head of Information Security is responsible for managing information security 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. - We have a robust, multi-layered security infrastructure that includes prevention and detective controls. - In addition, we have robust risk governance structures with direct oversight for information security risk to ensure that they are within risk appetite – Board Risk and Compliance Committee, Executive Risk Committee, Operational Risk Committee and Technology Security and Risk Sub-Committee. 	<p>↗</p> <p>There is heightened risk driven by staff working remotely and using electronic communication channels that may be susceptible to cyber attacks.</p> <p>During the Covid crisis, our monitoring controls were enhanced to protect Funding Circle from the changing threat landscape, enabling secure remote working and data protection controls.</p> <p>As cyber security threats continue to evolve and affect the financial industry, we continue to actively monitor and manage this risk within our risk appetite.</p> <p>We continue to develop our security tooling to identify new and emerging cyber risks. In 2020, we focused on vulnerability management and increased visibility, alerting, and response to stay ahead of cyber attackers.</p>

Principal risks and uncertainties continued

Operational risk continued

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Financial crime		
<p>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.</p>	<ul style="list-style-type: none"> - Complying with the laws and regulations designed to counter money laundering, terrorist financing, corruption and bribery is fundamental to Funding Circle's operations. - 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 Crime Operations team within the first line of defence that is advised, challenged and monitored by the second line Financial Crime Compliance team. 	<p>→</p> <p>Due to the speed and nature of the government-backed loan schemes roll out there is heightened industry risk that fraudsters as well as other organised crime groups could attempt to exploit these schemes.</p> <p>As an accredited lender, we have continued to undertake rigorous Fraud, Anti-Money Laundering (AML) and Know Your Customer (KYC) checks as part of the schemes' application process.</p> <p>We have also chosen not to participate to sections of programs that could present elevated fraud risks (e.g. British Business Bank loans to new customers).</p>
Technology risk		
<p>Failure of the technology platform could have a material adverse impact on Funding Circle's business, results of operations, financial condition or prospects.</p>	<ul style="list-style-type: none"> - We have robust risk governance structures in place with direct oversight for technology risk to ensure that they are within risk appetite – Board Risk and Compliance Committee, Executive Risk Committee, Operational Risk Committee and Technology Security and Risk Sub-Committee. - We invest significantly in the Group's technology infrastructure to ensure that the platform is resilient and scalable to support business growth. 	<p>→</p> <p>In response to Covid restrictions, technology risks did not materially increase as a result of moving to a remote workforce, since the capability to do so was already largely in place. There is however increased reliance on technology with remote working arrangements.</p> <p>We continued to progress our automation roadmap during 2020, and at the same time adapted systems to enable Funding Circle participation in government-backed lending schemes. To meet these needs, we made extra investments in the reliability and maintainability of our technology platform.</p> <p>Also in 2020, we consolidated our engineering and technology operations into our London technology centre without affecting overall technology risk.</p>

Operational risk continued

KEY RISKS	MANAGEMENT OF RISK	CHANGE IN RISK IN YEAR
Client money risk		
<p>Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure.</p>	<p>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 through:</p> <ul style="list-style-type: none"> - 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; - annual CASS external audit providing opinion; and - internal audit focusing on regulatory returns and governance, as well as specific compliance monitoring activity. 	<p style="text-align: right;"></p> <p>In 2020 we have maintained a robust control environment in relation to payment creation, payment authorisation, reconciliation review and monthly reporting.</p> <p>Additional complexity arose in 2020 and new controls have been created for the money flows related to the new trust structures needed to participate in the UK government schemes. To assist borrowers through the pandemic, we have also increased our range of forbearance options, which meant that we revised our policy to accept partial payments, requiring enhancement to our payment systems. Additional controls and monitoring have been deployed to mitigate risks whilst these changes were built.</p> <p>The FCA have increased focus on client assets, publishing two 'Dear CEO' letters, addressing the increased client money balances and adequate client asset arrangements, which the UK Board have considered.</p>

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 2023 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 notwithstanding the shorter term considerations of the impact of Covid-19 described below; 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 14, 15 and 18, 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:

- transition away from the current government stimulus packages currently operating in the UK and US which will move the Group back to its more traditional lending products together with the new, post CBILS, government backed scheme in the UK;
- diversify and increase funding from a variety of investors in order to meet future borrower demand;
- develop and introduce new lending products; 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 medium-term 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 2021 annual budget and is subject to reforecasting during the course of each year. The budget is extended into the second and third year of the plan using the Group's various drivers and expected growth rates experienced across the Group.

Progress against the financial budget and forecasts is then reviewed each month 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:

- levels of marketing spend, conversion rates, average loan sizes and mix of product channels which drive originations and Loans under Management ("LuM");
- expected yields on loans originated and service fee charges which drive fee income;
- Interest income receipts and interest expenses which drive net investment income;
- costs across geographies are controlled which specific focus on fixed costs and those that fluctuate with income such as marketing costs;
- an assumption of continued investment in the Group's IT infrastructure to meet the needs of the business and its product set but with the expectation of no fundamental breakdown in the IT infrastructure or major data loss;
- an orderly transition from the current government stimulus packages with the reintroduction and growth of the Group's core lending product;
- a longer-term tail of Covid-19 economic stress into 2022 and therefore we have assumed tighter credit boxes through to mid 2022.

Since the outbreak of Covid-19 the governments in the UK and the US have provided financial stimulus packages to SMEs. We expect that the economy and SMEs will recover from the current Covid-19 market conditions and that Brexit does not result in long lasting negative implications on SMEs in the UK.

We have therefore not assumed further stimulus packages over the medium term if there were longer lasting negative implications from Covid-19, although longer-term stimulus packages would likely improve the Group's financial prospects further given the move to online that the Covid pandemic has driven.

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. As part of this assessment, the Directors have considered and carried out a robust assessment of the principal risks as set out on pages 40 to 47. They have also considered the potential impact of the risks on the viability of the Group with specific focus on shorter-term liquidity needs and its availability, including liquidity currently tied up in investment products and the Group's ability to crystallise this should the need arise.

The financial plan was then subject to differing scenarios to assess those risks and quantify their financial impact on the Group. The Group also operates liquidity guardrails that it monitors which are of particular importance in the short term during the Covid pandemic.

The scenario 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

Severe global downturn impacting originations in each of our geographies together with an initial dislocation between existing government stimulus schemes and moving to the Group's core product offerings.

Under this scenario we have assumed that there would not be additional government intervention as this would likely improve the Group's performance as in that instance we would expect to be originating loans under government stimulus schemes.

Link to principal risks and uncertainties

- Strategic risk
- Credit risk
- Liquidity risk

Impact on the business model

Under a severe but plausible downturn scenario it is expected that:

- there would be a short-term period in year 1 where there would be limited transaction fees earned as the Group restarts its core lending products following the cessation of government stimulus packages;
- following a further severe global downturn there again 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.

Going concern and Viability

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 or the Group's financial covenants.

In all cases including the severe but plausible scenario above, with appropriate management actions, the scenarios were controllable to mitigate the impact on the Group's liquidity for the broader assessment of the Group's viability.

The shorter-term projections within the Group's strategic plan are also used to assess the Group's ability to operate as a going concern. As at 31 December 2020, the Group had net assets of £218 million, together with total cash of £103 million of which £38.9 million was held within the warehouse and securitisation vehicles. In February 2021 the Group received net £27 million in cash relation to fees owed to the Group at 31 December 2020. Additionally, within the net assets the Group holds £118.3 million of invested capital some of which is capable of being monetised if liquidity needs arise. At all times during the assessment, and after stress scenarios are modelled, the Group retains sufficient financial resources.

The Group has financial covenants with institutional investors for servicing agreements and related to debt facilities associated with borrowings used to fund SME loan originations in warehouses, for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios. At all times through the forecast period, and after stress scenarios, the Group remains within the required levels.

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 2023 as well as for at least the next 12-month period from the date of this Annual Report.

CORPORATE GOVERNANCE

51	Chairman's introduction
53	Board of Directors
56	Corporate governance report
62	Division of responsibilities
63	Composition, succession and evaluation
65	Audit, risk and internal control
66	Report of the Nomination Committee
69	Report of the Audit Committee
75	Report of the Risk and Compliance Committee
78	Directors' remuneration report
89	Annual report on remuneration
99	Report of the Directors
102	Statement of Directors' responsibilities in respect of the financial statements

Promoting long-term sustainable success while maintaining an open and inclusive culture

“

In times of crisis, good governance and effective decision making are more important than ever, and the Board remains committed to the highest standards of corporate 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

In times of crisis, such as we have seen this year with the Covid-19 pandemic, good governance and effective decision making are more important than ever, and the Board remains committed to the highest standards of corporate governance. 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

In January 2020, we announced that Oliver White would be replacing Sean Glithero as Chief Financial Officer, and Oliver joined the Company and the Board in June 2020. Oliver brings a wealth of financial services experience to the Board, and has made a significant impact since joining.

As previously announced, Cath Keers, Bob Steel and Ed Wray will be stepping down from the Board, and will not be standing for re-election at the Company's AGM in May.

Cath will be succeeded by Helen Beck, who has extensive remuneration and broader human resources experience (including serving on remuneration committees), and I look forward to welcoming Helen to the Board when she joins on 1 June 2021. I have taken on Cath's role as designated workforce Non-Executive Director in the meantime.

Matthew King, who currently chairs the FCL Board and has a deep understanding of the Group and its sector, will also be joining the Board and Audit Committee as a new independent Non-Executive Director later this year, and Geeta Gopalan will be replacing Bob as Senior Independent Director and on the Nomination Committee.

More details on these changes, and the Nomination Committee's approach to succession planning generally, is set out in the Nomination Committee Report on pages 66 to 68.

I would like to thank Cath, Bob and Ed for the significant contribution they have made to the Board; their insight and support will be missed.

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

- 53 Board leadership and Company purpose
- 62 Division of responsibilities
- 63 Composition, succession and evaluation
- 65 Audit, risk and internal control
- 65 Remuneration

Chairman's introduction continued

Governance activity

The primary focus of the Board this year has been on the operational and economic impact of the Covid-19 pandemic, and supporting our business and wider stakeholders, including our borrowers and our people, through these uncertain times. We have focused on strategic decision making and the management of risk, enabling the business to adapt quickly to the changing environment while retaining effective controls. Frequent Board meetings and the regular provision of up to date management information and stakeholder engagement results enabled the Board to oversee the changes implemented, and to monitor the risks and control environment effectively.

Our Corporate Governance Report provides more details on the Board's key decisions and areas of review during the year, as well as the steps we have taken to continue to develop and improve our governance structure. I would like to thank the Directors for their continued support in ensuring timely, robust and constructive challenge around the Board table and for their significant additional time commitment in response to the pandemic.

Our stakeholders

We consider a sound governance framework key in the creation of value for our shareholders and for the benefit of our wider stakeholders. In this environment, particularly with remote working, maintaining a two-way dialogue with our stakeholders remains a key area of focus for the Board, with the well-being of our people and communities our highest priority. Further information on how we considered the interests of our key stakeholders, as well as the matters set out in section 172 of the Companies Act 2006, are set out in Engaging our stakeholders on pages 26 and 27 and on page 61 of the Corporate Governance Report and this will be a continued area of focus in 2021.

To this end, we have established a standalone ESG Committee to ensure appropriate focus is given to the implementation of our ESG framework and objectives to be rolled out in 2021 (as set out in more detail on page 22) and to workforce engagement. I chair this Committee, with Neil Rimer and Matthew King joining me as members. Further details on the ESG Committee are set out on page 58 of the Corporate Governance Report.

Values and culture

Our culture is fundamental to the success of our business; our ability to adapt to the changing environment and remain resilient in a challenging year is in large part down to our strong and inclusive culture. The Board leads by example, focusing on our purpose and values in decision making, and has overseen several initiatives this year with the aim of promoting our culture and values, including our new Code of Conduct, our Circler Promise "Build the Incredible", the roll-out of Company wide (including the Board) diversity, equity and inclusion training and the approval of our ESG framework. More details of these initiatives are set out on page 56 of our Corporate Governance Report and in Our people on pages 19 to 21.

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 2020.

Andrew Learoyd
Chairman
25 March 2021

An experienced and effective leadership team



Andrew Learoy
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 and the Market Disclosure Committee. He also chairs the ESG Committee, and attends meetings of the Risk and Compliance Committee and Audit Committee by invitation. Andrew also took on the role of designated Non-Executive Director for workforce engagement with effect from 1 January 2021.

Independent: On appointment.

Skills and experience: Andrew spent 23 years working in investment banking as a research analyst, in corporate finance, 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. Andrew has been involved as an angel investor, Non-Executive Director and consultant to several start-up businesses.

External appointments: Andrew is also a director of Funding Circle Ltd. He is currently a non-executive director of Schwanhäuser Industrie Holding, a consumer products manufacturer based in Germany, and Threshold Sports Limited which creates and delivers outdoor events for the public, corporate and charity sectors.



Samir Desai CBE
Founder, Chief Executive Officer



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

Committee membership: Samir is a member of the Market Disclosure Committee and 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.



Oliver White
Chief Financial Officer



Term of office: Oliver was appointed to the Board as Chief Financial Officer on 15 June 2020.

Committee membership: Oliver is a member of the Market Disclosure Committee and attends meetings of the Risk and Compliance, Remuneration and Audit Committees by invitation.

Independent: Not applicable.

Skills and experience: Oliver has spent the majority of his 30 years' experience working in financial services, payments and lending. He joined from Vanquis Bank where he served as Chief Financial Officer. He was formerly the Chief Financial Officer at Barclaycard, where he managed a global business with combined assets of £40 billion, £5 billion of revenues and £1.6 billion of profits. Oliver is a chartered management accountant and holds an MBA from Warwick Business School.

External appointments: None.



Hendrik Nelis
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), Callsign, Celonis, CHECK24, Instana, Miro and WorldRemit.

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 Director and/or Member at a number of Accel entities, as well as a director or supervisory board member of several other companies.

Board of Directors continued



Neil Rimer
Non-Executive Director

E

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

Committee membership: Neil is a member of the ESG Committee.

Independent: No.

Skills and experience: Neil is a Co-Founder and Partner of Index Ventures. 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 the Co-Chair of Human Rights Watch.



Bob Steel
Senior Non-Executive Director

N

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. As announced, Bob will be stepping down from the Board with effect from the AGM, and Geeta Gopalan will take on the role of Senior Independent Director.

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 and the Chair 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. Bob holds directorships at Union Square Hospitality Group, Regional Plan Association (for New York tri-state) and several arts institutions in New York City. He is also a trustee of the Economic Club of New York, Hospital for Special Surgery and the Aspen Institute.



Eric Daniels
Non-Executive Director

RC A

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 a partner at Abako Partners, an adviser, a mentor, a non-executive director of Russell Reynolds Associates and a board member of Smithsonian Tropical Research Institute. He also advises several innovative technology companies.



Geeta Gopalan
Non-Executive Director

A RC D

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 and the Market Disclosure Committee. Geeta will also join the Nomination Committee and take on the role of Senior Independent Director to succeed Bob Steel later this year.

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, governance and nomination, and remuneration committees), Wizink Bank S.A. (where she is Chair of the risk committee and a member of the audit committee) and Ultra Electronic Holdings plc (where she is a member of the audit, nomination and remuneration committees).



Cath Keers
Non-Executive Director



Term of office: Cath was appointed to the Board as a Non-Executive Director in May 2018 and became Chair of the Remuneration Committee in September 2018. Cath will be stepping down from the Board with effect from the AGM and will be succeeded by Helen Beck as Chair of the Remuneration Committee.

Committee membership: Cath chairs the Remuneration Committee and is a member of the Nomination Committee. Cath also served as the designated Non-Executive Director for workforce engagement until she was succeeded by Andrew Learoyd with effect from 1 January 2021.

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 was appointed as Chief Marketing Officer of Sage in June 2020. She also 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 and Chair at Trustedhousesitters Group Ltd. She is also an adviser to a number of small businesses predominantly in the technology sector.



Lucy Vernal
Company Secretary, General Counsel
and Chief People Officer



Term of office: Lucy was appointed Company Secretary in July 2014.

Committee membership: Lucy chairs the Market Disclosure Committee and attends all other Board Committee meetings by invitation.

Independent: Not applicable.

Skills and experience: Lucy is responsible for the Legal, Compliance and People functions of the business, in addition to being Company Secretary. Prior to joining Funding Circle, Lucy was one of the founder members of Kemp Little LLP, a technology focused City law firm. She was managing partner of the firm from 2009 until 2011, when she became Wonga's first General Counsel.

External appointments: Lucy serves on the Board of the charities Bardhan Research and Education Trust of Rotherham and The Emerson Trust.



Ed Wray
Non-Executive Director



Term of office: Ed was appointed to the Board as a Non-Executive Director in August 2011. Ed will be stepping down from the Board with effect from the AGM, and Matthew King will be appointed as an additional Non-Executive Director and a member of the Audit Committee.

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 the Prodigy group of companies, the LMAX group of companies and London House Exchange Limited. He is also Chairman of Coach Core Foundation and Mental Health Innovations.

Board Committees

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Risk and Compliance Committee
- ESG and Workforce Engagement Committee
- Market Disclosure Committee
- Committee Chair

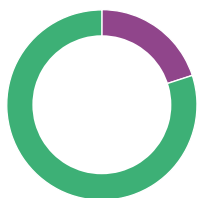
Corporate governance report

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

Details of the current composition of the Board (including gender diversity) are set out below. There has been no change from 2019, but female representation on the Board will increase in 2021 as a result of the Board changes previously announced.

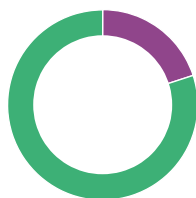
Board gender diversity

● Female 2 / 20%
● Male 8 / 80%



Board composition

● Executive 2 / 20%
● Non-Executive 8 / 80%



Purpose, values and culture

We consider our employees and culture fundamental to the success of our business, and in 2020 this has been more important than ever as we have adapted to the challenges created by the pandemic. Our team consists of a talented group of individuals who have a 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 company culture, as well as a set of five core values that represent who we are and how our team behaves (as described in Our people on page 20). In 2020, this has been enhanced by our new Circler Promise "Build the Incredible" and our new Code of Conduct, which was rolled out globally in late 2020, together with conduct rules training for all UK employees, to further embed our values and respond to the needs of remote working.

The Board approved a new ESG framework in December 2020, to be rolled out in 2021 and overseen by the newly formed ESG Committee. Equality, diversity and inclusion are important parts of this new framework and the Directors have participated in training, along with other Circlers, which covers issues such as unconscious bias.

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, and in 2020 the Board approved the launch of "Equity for All", which operates as a share incentive plan in the UK. The Board regularly receives reports on people-related matters, including results from our culture surveys, which have enabled the Board to monitor employee engagement and satisfaction, as well as how Circlers have adapted to remote working. The Directors also spend time with employees, for example by participating from time to time in our local and global gatherings or as part of the workforce engagement programme run by Cath Keers in 2020 in her role as the designated Non-Executive Director for workforce engagement (which Andrew Learoyd took on with effect from 1 January 2021). For more details on the Board’s engagement with the workforce, please see Engaging our stakeholders on pages 26 and 27.

Matters reserved for the Board and role of the Committees

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;
- remuneration of Directors and the Global Leadership Team; and
- the Group’s environmental, social and governance policy, framework and reporting.

Each Board Committee has written Terms of Reference defining its role and responsibilities as summarised in the table below, 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 66

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 processes 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 69

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's Enterprise Risk Management Framework, the Group's compliance with legal and regulatory requirements and policies and the effectiveness and appropriateness of the Group's corporate governance framework.

Membership

Eric Daniels (Chair)
Hendrik Nelis
Geeta Gopalan

Risk and Compliance Committee Report – page 75

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 for the purpose of achieving its long-term strategic objectives
- 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, platform funding and liquidity, operational, credit and regulatory, reputation and conduct risks and managing their impact on the Group
- Considers and approves the annual compliance monitoring and testing plan

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 78

Principal responsibilities

- Determines the remuneration of the Chairman, the Executive Directors and the Global Leadership Team (the "Executive Group")
- 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 and develops a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares
- Considers, determines and approves the provisions of the service agreements of the Executive Group and ensures that any payments that may be made under such provisions are fair to the individual and the Company, or the relevant member of the Group (as appropriate)
- 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 Group
- Reviews and approves 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

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. The Committee has at least three scheduled meetings a year and meets more frequently on an as needed basis. In 2020, the Committee met nine times.

ESG Committee

The Board has delegated to the newly formed ESG Committee responsibility for overseeing and monitoring the implementation of the Company's environmental, social and governance policy and framework, as approved by the Board. The Committee also oversees the Board's workforce engagement in conjunction with the designated workforce engagement Non-Executive Director. The Committee is chaired by the Chairman of the Board, who is joined by Neil Rimer and Matthew King.

Global Leadership Team

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

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 and a weekly portfolio risk update. During the initial months of the Covid-19 crisis in 2020, the Board held biweekly meetings, as well as receiving weekly management and portfolio risk reports, to ensure the Board remained informed and to enable timely decision making as the situation unfolded. The Chairman and Non-Executive Directors have had regular discussions without Executive Directors present, including by way of informal discussions between the Chairman and other Non-Executive Directors outside formal Board meetings.

The table below sets out attendance at Board and Committee meetings in 2020, including the strategy meeting held virtually in October 2020.

The Company Secretary or her nominated deputy attended all of the Board and Committee meetings in 2020. Matthew King (Chair of the Funding Circle Ltd Board) attended six Board meetings in 2020 as an observer to ensure his awareness of key areas impacting the UK business. Matthew will continue to attend Board meetings as an observer until his appointment to the Board later in the year. In addition, Andrew Learoyd and Matthew King attended all Audit Committee and Risk and Compliance Committee meetings as observers.

	Board ^{1,4}	Audit	Risk and Compliance ²	Remuneration ³	Nomination
No. of meetings	15	3	5	5	1
Andrew Learoyd	15			5	1
Samir Desai	15				
Oliver White ⁵	7				
Eric Daniels	15	3	5		
Geeta Gopalan ⁴	14	3	5		
Cath Keers ⁴	13			5	1
Hendrik Nelis	15		5		
Neil Rimer ⁴	11				
Bob Steel ⁴	13				1
Ed Wray	15	3		5	

Former Director who served during 2020

	Board ¹	Audit	Risk and Compliance	Remuneration	Nomination
Sean Glithero ⁶	6				

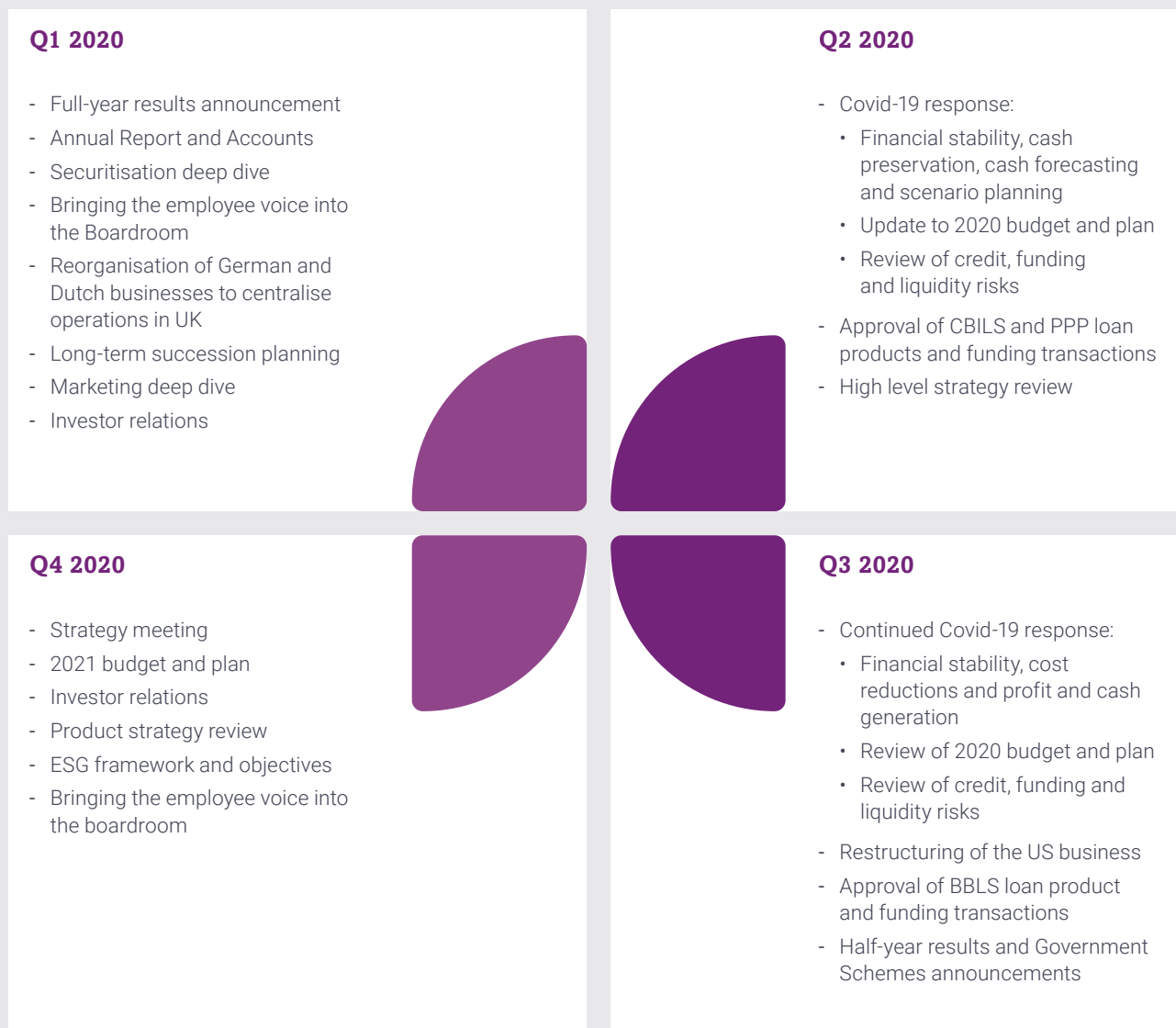
1. The Board held biweekly meetings from March until July 2020 in response to the Covid-19 pandemic. The Board therefore held nine additional meetings in 2020, as well as the six originally scheduled.
2. The Risk and Compliance Committee held two ad-hoc meetings due to the Covid-19 crisis, in addition to the three originally scheduled.
3. The Remuneration Committee held two ad-hoc meetings, in addition to the three originally scheduled, primarily to approve Oliver White's remuneration on his joining the Company.
4. Geeta Gopalan, Neil Rimer, Bob Steel and Cath Keers were unable to attend certain meetings (particularly those called on relatively short notice and as indicated in the table) due to prior commitments.
5. Oliver White was appointed to the Board on 15 June 2020 and has attended all Board meetings since his appointment.
6. Sean Glithero retired from the Board at the Company's AGM on 20 May 2020. In addition to the six meetings he attended as a Director, he also attended two meetings following his resignation as an invited attendee.

The Board and Board Committee meeting schedule for 2021 has been approved by the Board and the Committees and the Board will meet formally at least six times during the year, including a Board strategy meeting. Ad-hoc meetings may be called as and when appropriate, as was the case in 2020. The Audit Committee will hold an additional meeting from 2021 (being four meetings in total), as an action arising from the Committee evaluation process, to ensure the Committee continues to provide appropriate oversight of the Group's control environment and evolving business with additional products.

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 2020 is set out on the next page. In addition, some examples of key decisions taken by the Board in 2020, in the context of its section 172 duties, are set out on page 61.

Corporate governance report continued

2020 Board activities



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 69 and the Risk and Compliance Committee Report on page 75).

Board decision making and section 172 duties

As set out in the Section 172(1) Statement on page 27, the Directors are fully aware of their section 172 duties (and receive training on their duties on an annual basis). In discharging these duties, the Directors have regard to the factors set out in section 172(1)(a)-(f) of the Companies Act 2006, 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 the Board's decisions are consistent and predictable. Some examples of how the Directors 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.

Principal decision	Key stakeholders considered	Board's decision-making process
Becoming an accredited lender under government guaranteed programmes, including CBILS in the UK and PPP in the US	Borrowers Investors Communities Government	<p>The Board's primary focus was to ensure Funding Circle was able to use its unique position to support as many small businesses as possible through the pandemic. A key part of this was helping government to distribute much needed finance to SMEs, in line with the Group's long-term strategy. The Board responded rapidly, approving the shift to offering government guaranteed loans, the temporary pause of core lending (and retail investment due to retail investors being unable to participate in government loan schemes), together with several new funding arrangements with institutional investors.</p> <p>The Board (in conjunction with the Risk Committee) also oversaw the implementation of new processes to support the government guarantee programmes, including to ensure the implementation of robust controls and continued monitoring and oversight of the programmes.</p> <p>In response to the deteriorating economic outlook, the Board also carefully considered the need to protect investor returns, moving quickly to tighten credit criteria and reduce origination levels in the first months of the crisis.</p>
Introducing new forbearance and other measures to support borrowers	Borrowers Investors Communities Regulators	The Board approved a number of measures to ensure small business customers struggling with the impact of Covid-19 had sufficient breathing space, which in turn helped to protect investor returns. These included the implementation of payment plans and holidays, as well as the expansion of the support capacity of frontline teams to deal with an increase in queries, redeploying and retraining Circlers from other teams. The Board oversaw and monitored the implementation of these changes, including by monitoring customer complaints and employee feedback and ensuring regular engagement with our regulators.
Supporting Circlers	Our people Communities	The health and well-being of Circlers was central to the Board's response to Covid-19. The Board received regular updates on the transition to remote working, the reallocation of staff to different teams and the overall welfare of our people. This included the results of regular surveys and direct feedback from workforce engagement sessions (led by Cath Keers in her role as the designated Non-Executive Director for workforce engagement) to measure employee engagement and satisfaction and ensure Circlers continue to feel supported while remote working.
Restructuring in Germany, Netherlands and the US	Our people Our shareholders Borrowers Investors Regulators	<p>The Board approved the reorganisation of the model in Germany and Netherlands and the introduction of changes to streamline the US business (including centralising the technology team in the UK and moving the sales and marketing teams to Denver from San Francisco), both of which included some workforce reductions. In reaching these decisions the Board considered a wide range of operational and financial scenarios, and the interests of multiple stakeholder groups, and ultimately determined that the restructurings would promote the Group's long-term success by accelerating its pathway to profitability.</p> <p>Following the implementation of these restructurings, the Board has carefully monitored the progress of the relevant businesses against agreed milestones, along with the satisfaction and engagement of Circlers in those geographies through regular employee surveys and direct feedback from workforce engagement sessions.</p>
Approving the new ESG framework	Communities Our people Our shareholders Investors	In approving the new ESG framework, the Board took into account the views and ever increasing focus of the Company's key stakeholders (including our shareholders, investors, borrowers and our people) on ESG performance, coupled with the Board's desire that Funding Circle be a force for good in our communities. The Board also established a new ESG Committee to oversee the implementation of the ESG framework and provide regular reports to the Board to ensure ESG considerations remain at the heart of the Company's strategic objectives.

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:



Composition, succession and evaluation

Board Composition

The Board comprises the Chairman, the Executive Directors and the Non-Executive Directors, including the Senior Independent Director. There was one change to the Board during the year as previously noted, with Oliver White succeeding Sean Glithero as CFO in June 2020. All other current Directors served throughout 2020. Cath Keers, Bob Steel and Ed Wray will be stepping down in 2021, with Helen Beck and Matthew King joining the Board as new independent Non-Executive Directors later this year. More details on these changes are set out in the Nomination Committee Report on page 67.

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 or has served on the Board for a period of more than nine years.

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 have been or will be granted to Non-Executive Directors under any of the Company's share plans and the options held by the relevant Non-Executive Directors are all vested. Further details are set out on page 93. The Board does not consider that the historical granting of options to Non-Executive Directors impairs the independence of those Directors concerned.

In addition, Ed Wray and Andrew Learoyd have served on the Board for more than nine years (Ed Wray was appointed in 2011 and Andrew Learoyd was appointed to the Board in 2010, becoming Chairman in 2016). However, the Company understands that a Director's tenure for the purposes of the Code resets at the time of IPO (October 2018) when they take on new roles and responsibilities as a Director of a listed company. Taking this into account, together with the fact that both Ed and Andrew consistently demonstrate objective judgement and challenge in their decision making, and

in line with the recommendation of the Nomination Committee, the Board does not consider that their tenure in any way impairs their independence. In the case of the Chairman, this is further supported by the results of his annual appraisal by the Non-Executive Directors, led by Bob Steel as Senior Independent Director. Furthermore, detailed succession plans are in place for each Board member, which will be implemented when Ed steps down from the Board later in 2021 to be succeeded by Matthew King. Further details of the Nomination Committee's consideration of the Directors' independence, the Chairman's performance review and succession planning are set out in the Nomination Committee's Report on page 68.

Accordingly, the Board 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. Further detail on the Nomination Committee's consideration of the composition of the Board is set out in the Nomination Committee's Report on pages 67 and 68.

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 reviewed the other directorships and commitments held by the Non-Executive Directors. In particular, the Committee noted Cath Keers' executive role with The Sage Group plc, but confirmed that it was comfortable with the position, given that it was temporary pending Cath stepping down from the Board and that Cath had remained fully dedicated to her role with the Company.

See further details in the Nomination Committee Report on page 68.

In line with the recommendation of the Nomination Committee, the Board considers all Directors to be effective, able to devote sufficient time to discharge their duties and committed to their roles. All members of the Board, with the exception of Cath Keers, Bob Steel and Ed Wray who will be stepping down from the Board with effect from the AGM, will be offering themselves for re-election at the Company's AGM in May 2021, in compliance with the Code.

Board induction and training

All new Directors receive a comprehensive induction plan on joining the Board (and a tailored induction was provided to Oliver White when he joined the Company in June 2020), which is reviewed and enhanced as necessary by the Nomination Committee. This includes the following:

- overview of Funding Circle, including its structure and strategy, 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 professional development of Directors and employees. The Nomination Committee also considered, with the assistance of the Company Secretary, any development needs or training requirements of the Directors, including those arising out of the Board and Committee evaluation process.

Composition, succession and evaluation continued

Board induction and training continued

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. For example, the Directors undertake annual refresher training on their duties and responsibilities as a director of a listed company, and, along with other Directors, have taken part in diversity and inclusion training

as part of the Company's diversity initiatives. In addition, those Directors who sit on the Board of Funding Circle Ltd also complete annual training on "CASS" and the Senior Managers Certification Regime (including the Company's new Code of Conduct). The Board was also given various presentations during the year by the Company's advisers, brokers and senior management (including a "teach-in" session by the CFO on some of the Group's more complex accounting estimates and judgements as an action arising from the Audit Committee's effectiveness review), and updated on

key legislative and regulatory changes by the Company Secretary.

Board effectiveness

The review of Board effectiveness for 2020 was run internally in the final quarter of the year. The Chairman considered the benefits of an externally facilitated Board evaluation but determined that the internal evaluation process was sufficiently formal and rigorous and therefore, on balance, was appropriate for this year. This will be reviewed again in 2021. The evaluation was led by the Chairman and managed by the Company Secretarial team following the process set out below:

Tailored questionnaire prepared covering all aspects of Board effectiveness including:

Tailored questionnaire prepared covering all aspects of Board effectiveness including:	Questionnaire provided to	Results of the questionnaire	Assessment
<ul style="list-style-type: none"> - the Board's response to Covid-19; - the Board's performance when compared to 2019; - the effectiveness of the Board's internal relationships and with the management team; - the effectiveness of the Board's engagement with stakeholders; - the composition, experience and dynamics of the Board; - the Chairman's leadership; and - the extent to which the Board fulfils its role and responsibilities with particular regard to strategy, oversight of risk and succession planning. 	<ul style="list-style-type: none"> - All Directors - Company Secretary 	<p>The results of the evaluation were collated by the Company Secretarial team and presented to the Board in January 2021.</p>	<p>The results of the evaluation were considered and discussed in detail by the Board and it was agreed that the results highlighted that the Board is operating effectively, offering good challenge and adding value, with improved performance from 2019. Examples of areas positively evaluated included:</p> <ul style="list-style-type: none"> - the Chairman's leadership; - the Board's oversight of key risks and controls; - the response to the Covid-19 crisis, with the Board taking decisive action and providing appropriate challenge and support to management; and - the effective management of remote meetings to maintain constructive Board relations and facilitate openness and debate. <p>The key areas identified as possible opportunities to develop the Board's effectiveness further include:</p> <ul style="list-style-type: none"> - more focused executive summaries to be included in Board papers to enable more effective pre-reading and facilitate discussion; - a more structured and proactive focus on ESG matters, following the Board's approval of the ESG policy framework and establishment of the ESG Committee; and - increased diversity on the Board, with diversity remaining a key focus for the Nomination Committee. <p>The Chairman, CEO and Company Secretary are putting in place appropriate action plans in response to the review findings and will review progress during 2021.</p>

Audit, risk and internal control

The Board's Audit, Risk and Compliance, Remuneration and Nomination Committees also conducted reviews of their own effectiveness during 2020. Each Committee Chair agreed a tailored questionnaire which was circulated to Committee members and other individuals who regularly attend Committee meetings by invitation. The results were analysed by the Company Secretarial team and discussed in detail by the Committees where 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 70 to 74 of the Report of the Audit Committee.

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 102 in the Statement of Directors' Responsibilities. The Company's external auditors explain their responsibilities on page 110.

Risk management and internal control systems

The Board is responsible for promoting the long-term success of the Company for the benefit of shareholders, while taking into account the interests of our other key stakeholders including our people, borrowers, investors in our loans and the communities in which we operate. This includes ensuring that an appropriate system of risk governance is in place throughout the Group. To discharge this responsibility, the Board has established frameworks for risk management and internal control using a "Three Lines of Defence" model and reserves for itself the setting of the Group's risk appetite.

The Board oversees the Group's risk management and internal control system and is responsible for reviewing its effectiveness. 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 40 to 47 of the Strategic Report and the Reports of the Risk and Compliance and Audit Committees.

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 Enterprise Risk Management Framework ("ERMF"). More information on the ERMF is provided on page 36.

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 in the "Three Lines of Defence" model. 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 provided by an in-house team led by an experienced Head of Internal Audit, with co-source specialist support from Deloitte as required. 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 73.

Remuneration

The Board has delegated responsibility to the Remuneration Committee for the remuneration arrangements of the Group's Chairman and Executive Group. Details about this can be found in the Directors' Remuneration Report starting on page 78.



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.

Report of the Nomination Committee



The Committee is focused on improving diversity at all levels of the business and believes organisations perform best when diverse voices are heard and individuals feel they belong.



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%

Dear shareholders

On behalf of the Board, I am pleased to present our Nomination Committee Report for the year ended 31 December 2020.

Key highlights include:

- Overseeing the implementation of succession plans in respect of changes to the Board and Global Leadership Team, including the nominations of Oliver White as Chief Financial Officer and Matthew King and Helen Beck as new Non-Executive Directors to succeed Bob Steel, Ed Wray and Cath Keers.
- Continuing work on succession planning for both the Board and the Global Leadership Team, including reviewing and updating the plan to ensure emergency interim cover in the event of illness or incapacitation during the Covid-19 pandemic and the launch of a long-term succession planning project working with a leadership advisory firm.
- Approving the Group's diversity and inclusion initiatives for 2020, as well as monitoring the impact of those initiatives.

2021 priorities

- Renewing the Board and senior management succession plans in light of the recent and upcoming changes and continuing work on the long-term succession planning project with a leadership advisory firm.
- Overseeing the appointment of Matthew King and Helen Beck to the Board, and ensuring they receive a comprehensive and tailored induction process on joining.
- Working in conjunction with the newly formed ESG Committee to oversee the implementation of the Company's diversity, equity and inclusion 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 57 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 meets at least once a year, with additional meetings scheduled as required. The Committee met once in 2020 and also met in January 2021, when it reviewed the results of the Board and Committee evaluation process and discussed (among other things) succession planning and the overall composition of the Board. In addition, a number of matters falling within the Nomination Committee's remit (such as changes to the Global Leadership Team) were discussed at a Board level during the biweekly Board meetings that were held in the initial months of the pandemic.

Board induction and training

All new Directors receive a comprehensive induction plan on joining the Board, and a tailored induction was provided to Oliver White when he joined the Company in June 2020. A full induction process, tailored to their experience and roles, will also be provided to Helen and Matthew when they join the Board this year. Further details of the induction plan are set out on pages 63 and 64 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. Recent training has included refresher training on the duties and responsibilities of a director of a listed company and diversity and inclusion training taken along with other Circlers as part of the Company's diversity initiatives. Directors of Funding Circle Ltd ("FCL"), which is regulated by the Financial Conduct Authority, also undertake annual training on the protection of client assets and money ("CASS") and the Senior Managers Certification Regime (including on our new Code of Conduct). The new Directors will also be required to take part in all applicable training on joining the Company.

Diversity and inclusion

The Company is committed to creating a diverse and inclusive culture, free from discrimination of any kind, as evidenced by both our diversity policy and our Company diversity, equity and inclusion ("DEI") statement, and this extends to Board appointments. While there have been improvements in gender and ethnic diversity at both a Board and Global Leadership Team level over the last few years, with the appointment of Cath Keers and Geeta Gopalan to the Board in 2018, Lisa Jacobs as UK Managing Director in 2019 and Swati Lay as Chief Technology Officer and Vipul Chhabra as US Managing Director in 2020, the Committee recognises that there is more work to do.

A breakdown by gender of the Board, Global Leadership Team and their direct reports is provided on page 21. In addition, the UK's gender pay gap update for 2019 is available on our UK website, which shows successive improvements over the past two years.

The Committee is focused on improving diversity at all levels of the business, including the Board, Global Leadership Team and their direct reports, and believes that organisations perform best when diverse voices are heard and individuals feel they belong. To this end, the Committee resolved that a female Board member should be appointed to succeed Cath Keers.

The Committee has also approved and overseen the implementation of a number of diversity and inclusion initiatives in 2020 to drive positive change, including to achieve our target of 40% female representation across senior levels by 2025. Further details of these initiatives are set out on pages 20 and 21, and

include an increased focus on gender diversity in tech hiring, the launch of our DEI statement and Code of Conduct and the roll-out of diversity and inclusion training, which members of the Board and FCL Board have undertaken along with other Circlers. The Committee receives reports on gender pay gap data, overall gender diversity, culture survey scores and completed diversity and inclusion training to enable it to monitor the impact of these initiatives.

Equality, diversity and inclusion are also important parts of the new ESG framework approved by the Board in December 2020, which will be rolled out through 2021, together with a new diversity and inclusion engagement plan to help ensure delivery of our objectives. This will be monitored by the newly formed ESG Committee (which I chair), with regular reports provided to the Board to ensure ESG considerations remain at the heart of the Company's strategic objectives. The Nomination Committee will work in conjunction with the ESG Committee to provide a governance structure to support and oversee the implementation of our diversity goals.

Changes to the Board

As referred to in our 2019 report, following a formal and rigorous selection process, the Committee recommended that Oliver White be appointed as a Director, and Oliver joined the Board in June this year.

As previously announced, Bob Steel, Ed Wray and Cath Keers will step down from the Board with effect from the AGM, and will not therefore be standing for re-election.

In line with our succession plan, the Committee recommended the following to the Board:

- the appointment of Helen Beck as a new independent Non-Executive Director and Chair of the Remuneration Committee, and as a member of the Nomination and ESG Committees;
- the appointment of Matthew King as a new independent Non-Executive Director and a member of the Audit Committee; and
- the appointment of Geeta Gopalan as Senior Independent Director, to succeed Bob Steel.

In addition, I have taken on the role of designated Non-Executive Director for workforce engagement with effect from 1 January 2021, and will work in conjunction with the newly formed ESG Committee to ensure the Board continues to fully engage with Circlers at all levels. It is expected that Helen will take on this role once she is fully established on the Board.

The Committee engaged Egon Zehnder in the search for suitable female candidates for the role of Remuneration Committee Chair, and these candidates were considered against those already identified by the Committee as part of its succession planning. The selection process included Helen meeting with members of the Global Leadership Team and the Board and took into account Helen's extensive remuneration and broader human resources experience (including serving on remuneration committees). The Company has engaged Egon Zehnder on previous leadership searches and succession planning projects, but Egon Zehnder does not otherwise have any other connection with the Company or individual Directors.

The Committee was of the view that, given his wealth of financial services experience and deep understanding of the Group (being Chair of the FCL Board and FCL Risk and Audit Committees and a member of the ESG Committee), Matthew was the natural choice to join the Board, in line with the Committee's succession plan. Accordingly, the Committee determined that it was not necessary to advertise the role or engage an external search consultancy for this appointment.

Board composition

The Committee assessed the Board's current balance of skills, knowledge and diversity, taking into account the recent and proposed changes to the Board and the results of the Board evaluation process, and how this aligns with the Company's strategic priorities. The Committee concluded that the mix of the Directors' skills, experience and knowledge is appropriate to enable the Board to effectively discharge its responsibilities and support the Company's future development.

Report of the Nomination Committee continued

Board composition continued

The Committee also considered the Directors' independence, including in light of the fact that certain of the Non-Executive Directors hold vested options granted under the Company's pre-IPO share option plan and that Ed Wray has served on the Board for more than nine years. Taking into account the factors set out on page 63 (Board Composition), the Committee concluded that these factors did not impair the relevant Directors' independence.

See also the statement from Bob Steel below for further detail on the Chairman's performance and tenure.

Chairman's performance and tenure



In my role as Senior Independent Director, I have met with the other Non-Executive Directors without the Chairman present to appraise his performance and to discuss his tenure and succession. Although Andrew was appointed to the Board in 2010, he was only appointed as Chairman in May 2016 and the Board understands that the Chair's tenure is reset at IPO (October 2018) for the purposes of the Code, due to the new responsibilities that are taken on as a director and Chairman of a listed company. The Directors are of the firmly held opinion, taking into account the unanimously positive feedback on Andrew's leadership, that it is in the best interests of the Company and its shareholders that Andrew remains at the helm at this pivotal time for the business. Stability of leadership was particularly beneficial following the Company's IPO in 2018 and remains even more so in the current climate. Nevertheless, the Committee has developed a clear succession plan to cover both interim and longer-term solutions for the whole of the Board, including the Chairman.

Bob Steel

Senior Independent Director

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, which was especially demonstrated during 2020 with the significant increase in Board and Committee meetings, as well as the management information provided to the Directors, as a result of the pandemic.

The Committee also monitors additional external appointments of the Directors from both an availability and conflict of interest perspective, which are not undertaken without the prior approval of the Board. As part of this process, the Committee noted the time commitment required by Cath Keers' executive role with The Sage Group plc in particular. Following consideration, the Committee confirmed that it was comfortable with the position, given that it was temporary pending Cath stepping down from the Board and that Cath had remained fully dedicated to her role with the Company. The Committee was of the view that no other Director had taken on any additional significant commitments in 2020. Accordingly, the Committee agreed that the external commitments of the Directors standing for re-election would not prevent them from committing an appropriate amount of time to their roles with the Company.

Succession planning

The Committee has developed and maintains a succession plan for the Board and the Global Leadership Team, which covers both interim and longer-term solutions and has due regard for the importance of a diverse pipeline. This was reviewed and updated in early 2020 to ensure emergency interim cover was in place in the event of illness or incapacitation during the Covid-19 pandemic.

The Company's succession plan was successfully implemented on several occasions in 2020, including on the appointment of Oliver White as Chief Financial Officer, Swati Lay as Chief Technology Officer and Vipul Chhabra as US Managing Director. It has also been implemented in 2021 as a result of the upcoming Board changes (see further details under Changes to the Board above).

This will continue to be a focus in 2021, with the Committee looking to update and enhance the existing succession plan, including to reflect the recent changes and ensure diversity remains a key focus. The Committee has also engaged a specialist consultant to work on a long-term succession planning project to ensure the development of a diverse pipeline of emerging talent within the Global Leadership Team (including by identifying their key strengths and development needs), as well as maintaining an awareness of proven business leaders externally, which will continue to be a priority for the Committee in 2021.

Committee effectiveness

As introduced on page 65, the Committee undertook an effectiveness review during 2020 whereby each Committee member completed a tailored self-assessment questionnaire. The question set covered topics such as the composition of the Committee, succession plans for the Board and senior management and the process in respect of Board appointments made or proposed, and the Committee's involvement in such process. The feedback from the review was positive and was discussed in detail at the Committee meeting in January 2021, including the appropriate frequency of Committee meetings and succession planning in particular. The review process was also instrumental in directing the Committee's focus for 2021 (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 2021, 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 (other than Cath Keers, Bob Steel and Ed Wray, who will be stepping down with effect from the AGM) stand for election at the forthcoming AGM.

Andrew Learoyd

Chair of the Nomination Committee
25 March 2021



The Committee’s focus this year was on ensuring appropriate oversight over the evolving business and new loan products as well as continuing to maintain oversight over the Company’s control environment under some very exceptional circumstances.



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%

Dear shareholders

On behalf of the Board, I am pleased to present our Audit Committee Report for the year ended 31 December 2020. The exceptional and unprecedented challenges posed by the Covid-19 pandemic has clearly tested the Group’s business and the strength and robustness of the financial processes and controls. The Group’s control environment has been resilient and adapted well to remote working and new product launches in the UK and US. The Committee would like to thank all colleagues for the continued focus and support of customers at this time, all the while maintaining a strong control environment.

The Committee’s focus this year was on ensuring appropriate oversight over the evolving business and new loan products as well as continuing to maintain oversight over the Company’s control environment under some very exceptional circumstances.

Key highlights during the year include:

- Focusing on the integrity of financial statement reporting for both the Half Year Report and Annual Report and Accounts, the significant accounting judgements, estimates and disclosures, with careful consideration of the impact of

Covid-19 on the valuation of loan assets and bond liabilities, expected credit losses, liquidity, financial covenants and the Group’s ability to continue as a going concern, together with its viability disclosures. In this context, the Committee also reviewed guidance published by regulators in response to Covid-19 to ensure the disclosure was detailed and transparent and the guidance appropriately applied.

- Reviewing the effectiveness of the Group’s internal controls and the internal audit function, including monitoring the development of the in-house internal audit team.
- Reviewing and approving revisions to the 2020 internal audit plan and the internal audit plan for 2021 (including changes made as a result of Covid-19), in each case providing challenge to priorities, processes and reporting.
- Reviewing and approving the external audit plan and fees for the 2020 financial year and carrying out a formal evaluation to assess the independence, objectivity and effectiveness of the external auditors.
- Reviewing and approving the Group’s non-audit services fees in line with the Group’s policy.
- Recommending the reappointment of the external auditors.

- Reviewing the adequacy and security of the Group’s whistleblowing arrangements, receiving whistleblowing updates and providing reports to the Board where appropriate.
- Reviewing and overseeing (in conjunction with the Risk and Compliance Committee) the Group’s procedures and policies for detecting and preventing fraud and its systems and controls for preventing bribery and money laundering.

2021 priorities

- Continue the assessment of accounting judgements and estimates, particularly in relation to valuations of loans and expected credit loss provisions associated with SMEs which are heavily impacted by the prevailing macroeconomic environment and the accounting treatment in respect of the new loan products which will evolve as new lending schemes are rolled out and core lending restarts.
- Continue to review the Group’s internal financial controls and control systems to ensure these are developed to reflect the Group’s evolving business, including government guaranteed loans and the relaunch of term loan products, as well as controls on balance sheet and funding management.
- Oversee, in conjunction with the Risk and Compliance Committee and internal audit function, enhancements to the Group’s collections and recoveries processes, controls and systems to ensure the delivery of consistent and effective borrower outcomes as part of a robust credit cycle management process.

Report of the Audit Committee continued

2021 priorities continued

- Oversee the ongoing development of the in-house internal audit function, along with the requisite formal evaluation of its effectiveness.

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 53 to 55. Furthermore, the Committee undertakes appropriate training, including presentations from senior management and the external auditors, to ensure the Committee is kept fully apprised of the Group's evolving business, key accounting policies and principles, as well as key legislative and regulatory changes. 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 and systems 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 57 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 2020. All members of the Committee attended all meetings, together with (by invitation) representatives of the external auditors, the Head of Internal Audit, the CEO, the Chairman, 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 Financial Conduct Authority, it has its own Audit Committee, chaired by one of FCL's independent directors, Matthew King. The FCL Audit Committee meets at the same time as the Committee and Matthew King has therefore attended all Committee meetings.

The external auditors and Head of Internal Audit 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 audit partner and the Head of Internal Audit, as well as the CFO.

A summary of the Committee's 2020 highlights and 2021 priorities is set out on page 69, with further detail on certain key matters which warrant further consideration set out below, including the key considerations and conclusions of the Committee.

From 2021, the Committee will meet four times a year to ensure we continue to provide appropriate oversight of the Group's control environment and evolving business with additional products.

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 half year ended 30 June 2020 and year ended 31 December 2020 are set out below.

Reporting issue

Principal risks and viability

As a listed company, the Directors must satisfy themselves, and make a statement in the Annual Report, on the going concern and viability of the Group. The period over which the Directors have determined the viability assessment is three years.

The onset of Covid-19 and uncertainty it has created has led to increased importance of clear disclosure and transparency with respect to risks, going concern and viability.

Audit Committee action

The Committee reviewed reports from management that set out its view on the shorter-term going concern and longer-term viability of the Group. These included:

- reviewing the Group's principal risks as set out on pages 40 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 short and medium-term plan, its cash and liquidity;
- reviewing the outcomes of stress testing after applying severe but plausible scenarios aligned to the principal risks; and
- reviewing the risk, going concern and viability disclosures with regard to the clarity surrounding scenarios, uncertainties, sensitivities and management actions with regards to Covid-19 in particular.

Having challenged and considered the outcomes of management's assessment, the Committee concluded to recommend the Viability Statement to the Board for approval and that related disclosures are sufficiently clear and transparent.

Reporting issue**Audit Committee action**

Goodwill, non-financial assets and carrying value of investments in the Parent Company

The Group is required to annually assess any goodwill and non-financial assets for impairment. The Group holds goodwill in respect of the previous acquisition of Endurance Lending Network in the US (referred to as FC USA 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 Parent Company accounts in respect of the UK investments.

However, following a strategic re-set of the US business, along with an update to the Group's income and cost forecasts, the underlying projected cash flows of the US business cash-generating unit were insufficient to cover the carrying value of goodwill and the Parent Company investment in the US was also significantly impaired.

Accordingly, the Group has taken an impairment charge of £13.7 million consisting of goodwill of £12.0 million taken in June 2020 and other tangible and intangible assets of £1.7 million (of which £0.6 million is in relation to assets associated with the developing markets business). Additionally the Parent Company investment of in the US has been written down by £155.9 million.

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 2021 budget process.

The Committee also reviewed papers from management during the year which set out the key assumptions underpinning the impairment 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, including their challenge of the discount rates and management's medium-term plan assumptions.

After due challenge and discussion, the Committee concluded that the goodwill associated with the businesses in the US was impaired and should be written down. The Committee also concluded that there was insufficient headroom in the Parent Company investment in the US business and this should be partially 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 goodwill and right-of-use assets totalling £13.7 million has been disclosed as an exceptional item. In 2019, the impairment of assets totalling £34.3 million had been disclosed as an exceptional item.

The Group also incurred restructuring costs during the year of £5.0 million for the US and European businesses which have been treated as exceptional.

The Group additionally presented exceptional items in a columnar fashion on the consolidated statement of comprehensive income in order to increase transparency and understanding for readers.

The Committee received papers 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 and challenged the appropriateness of presenting the impairment separately from other 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 warehouses and ABS programme in 2019 and continued investment in these products, as well as the launch of CBILS, in 2020, 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 onset of Covid-19 has significantly impacted the fair value of some of these investments during the year and led to increased estimation uncertainty.

The Committee received and reviewed papers 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, including benchmarking the assumptions with the external auditors' internal valuations team.

The Committee considered the disclosures within the Annual Report and after due challenge concluded that the valuations were reasonable and the disclosures were appropriate.

Report of the Audit Committee continued

Significant issues considered in relation to the financial statements continued

Reporting issue	Audit Committee action
<p>Loan repurchase liability (also known as expected credit losses)</p> <p>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 139 to 141, in return for a fee premium.</p> <p>The Group is therefore required to make its best estimate for the expected credit losses on these loan investments and therefore the level of loan repurchases it must make.</p> <p>This requires estimation on the expected level of defaults using both historical trends and forward-looking information including the significant impact of Covid-19.</p>	<p>The Committee received and reviewed information from management during the year on the levels of loan repurchases and the associated repurchase liability also referred to as expected credit loss provisions.</p> <p>The Committee also received the views of the external auditors, including the use of their own internal specialist to challenge management's assumptions.</p> <p>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.</p>
<p>Alternative performance measures ("APMs")</p> <p>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 130 and in the glossary on page 171.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The Group also obtained the view of the use of these APMs from the external auditors.</p> <p>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.</p> <p>The Committee considered separately disclosing the impact that Covid-19 had had on the Group's investment portfolio during 2020. However, in light of the level of estimation and judgement involved, and following the FRC's published guidance, the Committee concluded that the Group should not seek to quantify or present the impact as a specific one-off or non-recurring exceptional item or treat it as an alternative performance measure.</p> <p>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.</p>
<p>Fair, balanced and understandable reporting</p> <p>The Board is required to report as to whether the contents of the 2020 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable.</p>	<p>At the request of the Board, the Committee has assessed the information contained within the Annual Report.</p> <p>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.</p> <p>The Committee also discussed the contents of the Annual Report with the external auditors.</p> <p>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 2020 Annual Report and Accounts, when taken as a whole, is fair, balanced and understandable.</p>

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, and this will remain an area of continued focus to ensure controls are developed and improved to reflect the Group's evolving business, including the new government guaranteed loan products and the relaunch of our term loan products.

In particular, the Committee will oversee, in conjunction with the Risk and Compliance Committee and Internal Audit function, enhancements to the Group's collections and recoveries processes, controls and systems to ensure the delivery of consistent and effective borrower outcomes.

Internal audit

The Group has established an in-house Internal Audit team led by an experienced Head of Internal Audit, with co-source specialist support provided by Deloitte as required. The Internal Audit work focuses on areas of key business risks and priorities, significant processes and current areas of concern to define the audit plan.

Appropriate adjustments were made to the Internal Audit plan throughout 2020 in response to the heightened levels of uncertainty and risk caused by Covid-19.

All proposed audit plan adjustments were reviewed, challenged and approved by the Audit Committee. Areas reviewed by the Internal Audit team during 2020 included:

- development, deployment and operation of the Coronavirus Business Interruption Loan Scheme product;
- credit decisioning strategy updates;
- collections, recoveries and litigation activities and arrangements in the UK, US, Germany and the Netherlands;
- AML & sanctions framework in the US; and
- procurement and third party management.

The Internal Audit plan for 2021 was approved by the Audit Committee in December 2020 and aligns to areas of highest inherent risk and continued strategic, operational and regulatory focus, including:

- strategic change portfolio management;
- product governance and operational management;
- credit portfolio monitoring and stress testing;
- electronic payments;
- interest and repayment calculations;
- operational resilience; and
- balance sheet management.

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, and has been pleased with the improvements to the function following the introduction of the in-house team and co-source support. A formal review process of the effectiveness of the Internal Audit function will take place in 2021.

Whistleblowing

The Board adopted a revised whistleblowing policy in March 2020, 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. Where it considers appropriate, the Committee raises such concerns to the Board. 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, and Nick Morrison was appointed as the Company's lead audit partner in respect of the year ended 31 December 2019.

Report of the Audit Committee continued

External auditors continued

The Committee undertook a formal assessment of PwC's effectiveness during 2020 by following the process below:

Tailored questionnaire prepared covering	Questionnaire provided to	Results of the questionnaire	Assessment
<ul style="list-style-type: none"> - Handover to new lead audit partner and improvement following 2019 effectiveness review - External audit partner accessibility and time commitment - Quality of the team - Quality and cost of the service provided - Accounting, technical and governance insight - Independence and professional scepticism - Quality of communication and interaction 	<ul style="list-style-type: none"> - Committee members - Chair of FCL Audit Committee - CFO - Director of Finance 	<p>The results of the evaluation were collated by the Company Secretarial team and presented to the Committee.</p>	<p>The Committee considered the results of the evaluation, together with a detailed review of PwC's audit plan, reports, conclusions 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 this was not impacted by remote working) and that PwC remain independent and objective and possess the skills and experience required to fulfil the external auditor's duties effectively and efficiently.</p>

Following the above evaluation, the Committee has recommended to the Board that PwC be 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 2021.

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 is in line with PwC's internal policies and the FRC's revised ethical standard, and gives 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 2020, PwC were engaged to provide non-audit services relating to the following:

Description	£000
Interim review of Half Year results announcement	118
CASS reporting	80
Other assurance related work	119
Total	317

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 to safeguard auditor objectivity and independence, including but not limited to internal audit work, valuations work and tax-related work.

The audit fees payable to PwC for the year ended 31 December 2020 were £700,000 and the non-audit service fees were £317,000. Further details on audit and non-audit fees are shown in note 4 to the financial statements.

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

Committee effectiveness

As introduced on page 65, the Committee undertook an effectiveness review during 2020 whereby each Committee member, and by invitation the CFO and the Chair of the FCL Audit Committee, completed a tailored questionnaire. The question set covered topics such as the:

- composition of the Committee;
- quality and timeliness of information provided;
- Committee's oversight of, and ongoing engagement with, the internal and external auditors; and
- Committee's understanding of the financial reporting and key financial issues facing the Group as a result of the prevailing economic climate and Group's evolving business.

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 2021, including for an additional Committee meeting to be held each year in recognition of the Group's evolving and increasingly complex business and for management to provide a "teach-in" session to the Board on some of the more complex accounting estimates and judgements.

Geeta Gopalan
Chair of the Audit Committee
25 March 2021

“
 The Committee has monitored the Group’s risk management and governance framework in a year which has seen unprecedented change and challenges due to the pandemic.



Members and attendance		
Member	Meetings	Attendance
Eric Daniels (Chair)	5/5	100%
Geeta Gopalan (Independent Non-Executive Director)	5/5	100%
Hendrik Nelis (Non-Executive Director)	5/5	100%

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 2020.

The Company’s approach to risk and risk management, together with the principal risks that face the Group, is set out on pages 36 to 47 of this report. The Committee has monitored the Group’s risk management and governance framework in a year which has seen unprecedented change and challenges due to the pandemic. I am pleased with the response of the Group’s risk management capabilities in the face of these challenges, which enabled Funding Circle to respond quickly, pivoting to government-guaranteed loans to support our customers and the broader economy, while also ensuring appropriate processes and controls were adopted to protect investors’ returns.

The Committee’s highlights from 2020 are set out below.

- Continued focus on funding and liquidity risk, both to ensure diversification of funding sources (including for the government guaranteed loan products) and to maintain a prudent level of balance sheet liquidity. The Committee recognised funding and liquidity risk as an additional principal risk and developed and implemented a specific funding and liquidity risk management framework in early 2020, which was reviewed and enhanced throughout the year. As part of this process, the Committee approved the establishment of a new executive level Balance Sheet Management Committee to oversee balance sheet strategy and risk and to review capital, funding and liquidity strategies.
- Conducted a detailed review of the Group’s people risk (excluding the Board and Global Leadership Team, which falls within the remit of the Nomination Committee), including monitoring the transition to home working and reallocation of staff to different teams in the face of the pandemic, and ensuring the provision of appropriate support to Circlers.

The Committee also reviewed the Group’s employee survey results, with a particular focus on these issues, as well as the importance of diversity and inclusion.

- Received regular reports on the information security and technology risks, especially in the context of the move to remote working and the increased risk of cyberattacks in light of the pandemic, and challenged the priorities on outstanding internal audit items to ensure high risk vulnerabilities were addressed.
- Oversaw steps to improve borrower outcomes and protect vulnerable customers, while also protecting investor returns. This included tightening new lending criteria, augmenting capacity and enhancing quality monitoring in the collections and recoveries team and offering forbearance and curing plans to customers in difficulty. As part of this process, the Committee also monitored complaints to ensure they were appropriately addressed.
- Reviewed and challenged risk assessments of the new government guaranteed loan products and oversaw the implementation of new processes to support those schemes, including robust controls, independent quality checks and continued monitoring and oversight of the programmes (including to manage the risks of financial crime).
- Reviewed and challenged the Group’s portfolio loss forecast, including its methodology and assumptions, for use to assess the fair market value of the Company’s loan assets and bond liabilities (in conjunction with the Audit Committee).

Report of the Risk and Compliance Committee continued

- Oversaw the Company's engagement with the Financial Conduct Authority ("FCA"), given the increased scrutiny of the regulator (particularly with regards to ensuring viability) in the light of the pandemic, including in relation to liquidity, partial repayments (which were approved by the Committee to enhance borrower and investor outcomes) and forbearance plans.
- Reviewed and challenged risk assessments (including, in particular, people risk) in relation to the Company's restructuring in Europe and the US.
- Oversee, in conjunction with the Audit Committee and internal audit function, enhancements to the Group's collections and recoveries controls and systems to ensure the appropriate management of borrowers in difficulty (including vulnerable customers), while also maximising investor returns, including in the event of an increased volume of collections activity.
- Continue to focus on information security and technology risks to ensure high risk outstanding internal audit items and vulnerabilities are appropriately prioritised.
- Continue to monitor and oversee controls relating to loan products under the existing, and any new, government guaranteed loan programmes (including to manage the risks of financial crime) and on the restart of the Company's core term loan products.
- Continue to monitor model performance and the adequacy of model governance and control framework to ensure ongoing viability of significant models in use.

2021 priorities

- Continue to review of the Group's risk strategy, risk management capabilities and risk tools to reflect the Company's evolving business, new loan products and any emerging risks by, among other things, reviewing and revising the Enterprise Risk Management Framework ("ERMF") as necessary and improving risk management controls, including through the increased use of centralised recordkeeping in a governance risk and compliance tool to enable clear visibility of control ownership and risk mitigation relationships.
- Continue to monitor the economic and political environment, including in relation to the pandemic and the UK's exit from the European Union, and contingency planning to respond and mitigate the impact of any adverse macroeconomic conditions. The Committee will also continue to monitor the health of the loan portfolio and stress/loss forecast simulations in the context of risk volatility.
- Continue to expand the Group's balance sheet management capabilities, providing close oversight of the newly created Balance Sheet Management Committee to track the embeddedness of new balance sheet stress testing, capital and liquidity risk appetite metrics and deepened balance sheet investment oversight.
- Continue to review the Group's people risk, particularly in the light of any continuing restrictions due to the pandemic.

Role and composition 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 57 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.

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 53 to 55 of this report.

Operating rhythm of the Committee

The Committee met five times during 2020, including two off cycle meetings held in March and September in response to risk matters arising as a result of the pandemic. All members of the Committee attended all meetings, together with (by invitation) the CRO, CEO, CFO, Chairman of the Board, Company Secretary, Head of Internal Audit 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 Funding Circle Ltd ("FCL") is authorised and regulated by the FCA, it has its own Risk and Compliance Committee, chaired by FCL's independent director, Matthew King (who will also be joining the Board later this year). The FCL Risk and Compliance Committee meets at the same time as the Committee, and Matthew King has attended all Committee 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 in place, and as reviewed by the Committee on a regular basis.

During 2020, 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 2020 highlights and 2021 priorities is set out on page 75, including the key considerations and conclusions of the Committee. In addition, a number of risk management issues were discussed and decisions made at the biweekly Board meetings held during the initial months of the pandemic. This included the decision to temporarily suspend our non-government backed lending and

retail investment in the UK, the onboarding of a range of new investor relationships and the renegotiation of the terms of certain of the Group's investment positions. The CRO also provided a weekly risk update to the Board (and continues to do so).

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 risk control self assessments ("RCSA") and ongoing risk reports including risk appetite;
- review of internal risk controls (further details of which are covered on page 65 of the Corporate Governance Report);
- review of the compliance programme and the compliance and risk monitoring and testing plan;
- approval of funding and liquidity risk management framework; and
- approval of annual risk assessment summary.

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 65, the Committee undertook an effectiveness review during 2020 whereby all Committee members, and by invitation the CRO and Chair of the FCL Risk and Compliance Committee, completed a tailored self-assessment questionnaire. The question set covered topics such as the composition of the Committee, the quality and timeliness of information provided, the Committee's oversight of the Group's risk management systems and its understanding of the key and emerging risks facing the Group.

Following a productive discussion, the Committee agreed a number of actions to be implemented, including that the Committee include model risk as an additional focus for 2021 and continue to monitor people and information security and technology risks. The Committee also discussed environmental, social and governance ("ESG") related risks, and it was subsequently agreed that the newly formed ESG Committee would have primary responsibility for the oversight of such risks in line with the enhanced ESG framework approved by the Board in December 2020, with the support of the Committee where appropriate.

Eric Daniels

Chair of the Risk and Compliance Committee
25 March 2021

Directors' remuneration report



“

The revised policy proposals achieve a more market aligned and balanced package with appropriate focus on short and long term performance, underpinned by our core reward proposals.

Dear shareholders

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020. In addition to my annual statement as Chair of the Remuneration Committee, this report contains:

- our proposed Directors' Remuneration Policy (the "Remuneration Policy"), which will be put to a binding shareholder vote at the 2021 AGM and will apply for three years from the date of approval; and
- the Annual Report on Remuneration, which sets out payments made to the Directors for the year ended 31 December 2020 and how our proposed Remuneration Policy is intended to be implemented in 2021. The Annual Report on Remuneration is subject to an advisory shareholder vote at the 2021 AGM.

2020 Committee highlights

- Consulted with shareholders to guide our review of our Remuneration Policy.
- Considered the appropriate remuneration package for our new CFO.
- Oversaw the development of a new approach to reward members of the Global Leadership Team and all other Circlers.
- Introduced an all-employee Share Incentive Plan ("SIP") to further align all Circlers with shareholder interests.

2021 Committee priorities

- Continue to engage with shareholders in order to receive support for our proposed Remuneration Policy.

- Implement the Remuneration Policy subject to shareholder approval at the AGM.
- Continue to monitor remuneration practice across the Company as a whole, keeping abreast of market practice.

Review of 2020

The Covid-19 pandemic has caused uncertainty for many people and especially for our small business customers over the course of 2020 and remains a very real challenge at the time of writing this annual statement. I would like to start by recognising and thanking all our Circlers who have responded so well, demonstrating the Funding Circle values as they quickly adapted to new ways of working. This enabled Funding Circle to become part of the solution in getting much needed government guaranteed funds to borrowers in both the UK and the US and to support our existing borrowers, many of whom experienced unprecedented difficulties when the pandemic hit. As well as a strong second half in terms of investor and borrower demand, with record originations of £2.7 billion and Loans under Management (LuM) of £4.2 billion, the team has carefully managed the existing loan book, expects positive investor returns in each cohort and has managed the Group's cost base effectively. I am proud of how we have performed this year and of the leadership shown by our CEO, CFO and Global Leadership Team through this difficult time.

I am also pleased to say that, while the Global Leadership Team and the Board volunteered 20% reductions to their

salaries and fees over the period from March to May 2020, there were no salary reductions for the wider employee base and the Company did not claim any furlough or other government support for payment of salaries.

Board changes

Sean Glithero resigned as CFO on 20 May 2020 and Oliver White was subsequently appointed as CFO on 15 June 2020. Sean did not receive any payments linked to his resignation. Unvested Growth Shares and unvested LTIP awards held by him lapsed in full on cessation of his employment. Oliver White's remuneration arrangements were determined in accordance with the Remuneration Policy as follows:

- A salary of £400,000 per annum.
- A 2020 performance based LTIP award equal to 200% of salary subject to EPS and Fee Income performance over a three year performance period ending 31 December 2022. The maximum opportunity was set circa 30% less than the maximum opportunity under the Remuneration Policy. See page 92 for further details.
- A buy-out award in compensation for the forfeiture of his 2019 and 2020 bonus from his previous employment. Further details of the buy-out awards are set out on page 92.

The Committee considered the remuneration arrangements to be appropriate in the context of recruiting a high calibre and experienced individual given the scale and complexity of the business as well as the requirement for specific financial services skills.

Review of the Executive Directors' Remuneration Policy

As I noted in my annual statement last year, the Committee conducted a comprehensive review of the existing Remuneration Policy in 2020 which included consultation with our major shareholders and proxy agencies. We have rebalanced the package from a highly leveraged one (with a low salary and high long-term only variable component) to a more market aligned and balanced package with appropriate focus on short and long term performance, including an annual bonus and Restricted Shares. More details on the proposed changes are set out below:

- **Replacing the current performance based LTIP with Restricted Shares.**

The rationale driving this change includes:

- **Better alignment with our remuneration philosophy and with shareholders:** The Committee considered at length introducing Restricted Shares following its IPO in 2018 given our remuneration philosophy and that Restricted Shares were (and continue to be) operated below Board level. However it was felt at the time that, as the use of Restricted Shares within the UK environment was very uncommon, a more conventional performance based LTIP for Executive Directors was more appropriate. As part of the Policy review, the Committee reconsidered Restricted Shares for Executive Directors and, on reflection, we strongly believe it is the right approach for Funding Circle. Restricted Shares fully align with our remuneration philosophy of ensuring that senior management are significant share owners, promoting good stewardship and incentivising Executive Directors to create long term value as the business continues to mature.
- **Simplification:** Operating Restricted Shares provides a much simpler long-term incentive framework than the current LTIP which is measured against a performance matrix. In addition, the move to Restricted Shares removes the significant challenges of setting stretching yet realistic long-term targets for a maturing business.

- **Key terms:** Restricted Share awards will vest after three years following the date of grant, and will then be subject to a two-year holding period, ensuring that the overall time horizon of awards is five years from the date of grant. Vesting of awards for the Executive Directors will be subject to robust financial and non-financial underpins. See page 98.

- **Introducing an annual bonus** enables us to incentivise and reward Executive Directors for the achievement of stretching annual financial and strategic objectives and deliver a link between pay and performance. It also brings the Remuneration Policy more in line with other FTSE Main Market listed companies and helps to align the Executive Directors' incentive structure with the wider Group (as an annual cash bonus was introduced in 2020 for the leadership team and for those in manager and specialist roles). 40% of any bonus earned would be deferred into shares for three years therefore providing additional longer-term shareholder alignment.
- **Ensuring total target remuneration does not increase.** The quantum of Restricted Shares and annual bonus awards has been calibrated to ensure that the target remuneration opportunity is unchanged from the previous Remuneration Policy. The total maximum remuneration opportunity is however significantly lower than under the previous Remuneration Policy. The CEO's total incentive opportunity (which currently includes a performance based LTIP only) has decreased by circa 46%, reflecting that the performance based LTIP has been replaced with a performance based annual bonus and Restricted Shares. If the performance based LTIP had been replaced purely with Restricted Shares, the overall reduction in incentive opportunity would have been in excess of 50%.

CEO salary review

As part of the Remuneration Policy review and consultation with shareholders, the Committee took the opportunity to review the CEO's salary positioning. The CEO's salary has remained unchanged since 2017 and is significantly below market, being amongst the lowest in the FTSE Main Market. The Committee strongly believes that an increase to the CEO's annual base salary is needed to address some of the gap to market, bring the ratio of salary to other compensation more into line with market practice and to begin to reflect the size and complexity of Funding Circle's operations. We believe that a salary of £400,000, which still remains below the lower quartile of FTSE SmallCap Top Half companies, is appropriate at this current time.

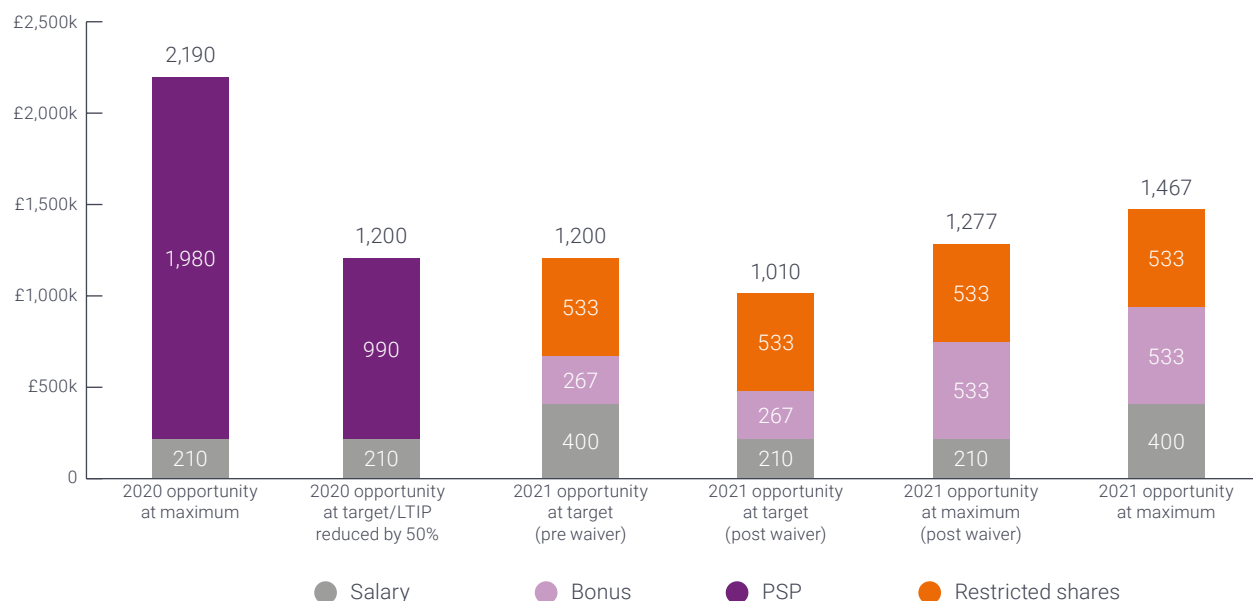
While the Committee recommends that this new salary level is established for the CEO, Samir Desai has expressed a preference for no change to his current salary of £210,000 in the current economic and societal climate and has therefore notified the Committee of his intention to waive the increase for 2021. Incentives will be determined based on the reference salary of £400,000.

Taking into account the repositioning of the CEO's salary (as noted above) his total maximum remuneration opportunity has decreased by circa 33%. Once the waiver by the CEO of any increase to his 2021 base salary is also taken into account, his total maximum remuneration opportunity has decreased by circa 42%.

Directors' remuneration report continued

CEO salary review continued

Illustration of calibration of the proposed total remuneration for the CEO.



Remuneration arrangement for 2021

The CFO and Non-Executive Directors will not receive a salary/fee increase in 2021.

The maximum annual bonus entitlement for the CEO and CFO will be equal to 133% of reference salary and 100% of salary respectively. The annual bonus measures will be AEBITDA, Fee Income and strategic objectives (each weighted one-third), with the intention that the targets to achieve the maximum bonus are appropriately calibrated to reflect the growth aspirations for the Group. 40% of any bonus earned will be deferred into shares for three years.

The CEO will be awarded a grant of Restricted Shares with a value equal to 133% of reference salary and the CFO an award with a value equal to 100% of salary. Vesting of the Restricted Shares will be subject to a financial underpin based on operating income as well as qualitative underpins to ensure that Executive Directors are not rewarded where the Committee considers there to have been a failure in performance, including serious breach of regulation, material reputational damage and gross misconduct. The financial underpin has been set such that annual operating income must be on average £150 million over the period of three years from 2021 to 2023. Prior to the vesting of the Restricted Shares the Committee will assess whether actual performance of the Company and Executives is reflected to guard against payment for failure or against windfall gains. The Committee retains the discretion to make any adjustment to vesting if it deems necessary.

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.

Funding Circle is a founder-led business. From inception, the remuneration philosophy has been to support share ownership across the business and every employee that has joined Funding Circle has been entitled to an equity award. Equity incentives encourage all Circlers to behave as owners – taking decisions that balance long-term value creation with achieving shorter-term strategic priorities. See page 89 for the key elements of the incentive arrangements.

CEO v employee pay ratio

All FTSE Main Market listed companies with more than 250 UK employees are required to publish the pay ratio of the total remuneration of the CEO compared to other UK employees. Our median ratio was 3.8:1 for 2020, which is amongst the lowest across the FTSE Main Market. Further information can be found on page 97.

Conclusion

I look forward to receiving your support at our 2021 AGM, where I will be available to respond to any questions shareholders may have on this report, our proposed Remuneration Policy or in relation to any of the Committee's activities.

Cath Keers

Chair of the Remuneration Committee
25 March 2021

Remuneration Policy

The Remuneration Policy, as set out in this section, applies to the roles of Chair, Executive Director and Non-Executive Director. If approved by the shareholders in a binding vote at the 2021 AGM in May, the Remuneration Policy will apply for a maximum of three years from the AGM.

Changes to the Remuneration Policy and summary of decision making process

The Committee has conducted a comprehensive review of the Remuneration Policy to ensure that it continues to align with our remuneration philosophy of share ownership and core reward principles. In determining the changes to the Remuneration Policy the Committee followed a robust process which included discussions on the executive remuneration structure at several meetings. The Committee considered input from management and our independent advisers, consulted with major shareholders and took into account views raised by Circlers during workforce engagement sessions. As set out on page 79, the key changes to the Remuneration Policy are the replacement of our current performance based LTIP with Restricted Shares and the introduction of an annual bonus. Other minor changes have been made to the wording of the Remuneration Policy to simplify and aid its operation and to increase clarity.

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. Committee retains the discretion to award higher increases where it considers it appropriate, such as, but not limited to: <ul style="list-style-type: none"> - where an Executive Director has had a change in scope or responsibility; - where an Executive Director's development or performance in role has changed (e.g. to align a newly appointed Executive Director's salary with the market over time); - where there is a significant change in the size and/or complexity of the Company; and - where salary has previously been positioned behind market, and there is a re-basing of the overall remuneration package. 	n/a
Allowances and benefits	Executive Directors' benefits currently include, but are not limited to, 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. Benefits offered to Executive Directors are in line with those available to other employees in the Group.	n/a

Directors' remuneration report continued

Executive Directors' remuneration continued

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
Pension	<p>Executive Directors are entitled to receive employer contributions to the Funding Circle Ltd defined contribution pension plan.</p> <p>Individuals are entitled to receive some or all of their pension allowance as cash in lieu of pension contribution.</p>	To provide retirement benefits for Executive Directors.	Maximum contribution in line with contribution to other employees in the Group, which is currently 5% of salary.	n/a
All-employee plans	<p>Executive Directors are eligible to participate in HMRC tax-efficient plans that are available to all employees.</p> <p>Funding Circle currently operates a Share Incentive Plan.</p>	To encourage share ownership and alignment with shareholders.	Participation levels are in line with HMRC limits.	n/a
Annual Bonus	<p>Awards are based on performance (typically measured over a financial year) against key financial and non-financial measures.</p> <p>40% of any bonus earned will normally be deferred into shares for three years.</p> <p>The Executive Directors may, at the discretion of the Committee, receive dividend equivalents on the deferred shares.</p> <p>Malus and clawback provisions apply.</p> <p>The Committee has discretion to amend the pay-out should any formulaic outcome not reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the performance period.</p>	To motivate and reward the achievement of the Group's annual financial and strategic targets.	<p>A maximum opportunity in respect of any financial year of:</p> <p>CEO: 133% of salary.</p> <p>Other Executive Directors: 100% of salary.</p>	<p>Measures and targets will normally be set annually by the Committee and will be in line with Funding Circle's strategy.</p> <p>A mix of both financial and non-financial measures will be used, with at least 60% of the annual bonus normally based on financial measures.</p> <p>The target annual bonus is 50% of maximum opportunity, with 100% of maximum payable for maximum performance. Details of pay-outs between these levels will be disclosed in the relevant Directors' Remuneration Report.</p>

Element of remuneration	Key features	Purpose and link to strategy	Maximum opportunity	Performance measures
Restricted Share awards	<p>Executive Directors are granted Restricted Share awards with a three-year vesting period, subject to performance underpins.</p> <p>Following the end of the vesting period, the awards will be subject to a two-year holding period.</p> <p>Awards may be granted in the form of conditional share awards or nil-cost options.</p> <p>The Executive Directors may, at the discretion of the Committee, receive dividend equivalents on vested shares.</p> <p>The awards are subject to malus and clawback provisions.</p>	<p>Align Executive Directors with shareholders' interests and promote stewardship and good governance over a long time horizon.</p>	<p>A Restricted Share award may be granted to an Executive Director in respect of each financial year over a fixed number of shares.</p> <p>The maximum number of shares that can be awarded in respect of each financial year will be calculated based on such number of shares as have a market value at the grant date of the awards in respect of the 2021 financial year equal to 133% of salary for the CEO and 100% of salary for the CFO.</p> <p>For these purposes, the market value of a share will be determined by the Committee using an average share price.</p> <p>Granting as a fixed number of shares further aligns Executive Directors to shareholders, rewarding share price appreciation whilst depreciation is penalised.</p> <p>Prior to each grant, the Committee will review the number of shares to be granted to ensure the fixed number of shares remains appropriate, taking into account factors including the share price at the time of grant and the target total compensation for companies of a similar size and complexity.</p>	<p>Performance underpins may be based around key financial and/or strategic measures.</p> <p>In addition, the Committee has discretion to reduce the vesting outcome should it not reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the vesting period.</p>
In-post shareholding requirement	<p>Executive Directors are expected to build and maintain a holding of shares in the Company.</p>	<p>Supports our ownership mentality focus, promotes stewardship and helps align management with shareholders.</p>	<p>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, subject to consideration by the Committee of the factors at the time, 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.</p>	
Post-exit shareholding requirement	<p>Executive Directors are expected to retain a proportion of their shareholding for a two year period after they have left Funding Circle.</p>	<p>To reinforce long-term alignment of Executive Directors' interests with those of shareholders post cessation of employment.</p>	<p>Minimum post-exit shareholding requirement of "guideline shares" equal to 200% of salary for all Executive Directors or the actual shareholding on departure, if lower. "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.</p>	n/a

Directors' remuneration report continued

Performance measure selection

The measures used under the annual bonus plan will be selected annually to reflect the Group's key financial and strategic objectives for the year. In setting performance targets, the Committee takes into account a range of factors including business forecasts, prior year performance, degree of stretch against the performance targets in the business plan, market conditions and expectations.

Restricted Share awards will be subject to performance underpins which will be determined prior to the grant of an award taking into account the Committee's assessment of the measures which will best reflect overall business health over the vesting period.

Malus and clawback policy

Malus and clawback provisions apply to annual bonus awards, deferred bonus awards and Restricted Share awards over the following time periods:

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to two years following payment.
Deferred bonus awards	To such time as the award vests.	No clawback provisions apply (as malus provisions apply for three years from the grant date).
Restricted share awards	To such time as the award vests.	Up to two years following vesting.

Malus and clawback may apply in the following circumstances:

- a material misstatement of the audited accounts of a member of the Group;
- an error in assessing a performance measure or underpin, or an error in the information or assumptions on which awards were granted, vest or released;
- a material failure of risk management in any member of the Group or a relevant business unit;
- material corporate failure;
- serious reputational damage to any member of the Group or a relevant business unit; or
- serious misconduct or material error on the part of the participant.

Discretions reserved in administering incentive awards

The Committee will administer the annual bonus, deferred bonus awards, Restricted Share awards and Share Incentive Plan awards in accordance with the relevant plan rules and the above Remuneration Policy table. The Committee retains certain discretions, consistent with market practice, in relation to the administration of the awards including:

- the determination of performance measures, underpins and targets and resultant vesting and pay-out levels;
- adjusting the number of shares vesting up or down where:
 - the vesting outcome does not reflect the underlying financial or non-financial performance of the Company;
 - the vesting level is not appropriate in the context of circumstances that were unexpected or unforeseen at the start of the year; and/or
 - there exists any other reason why an adjustment to the level of vesting of the award is appropriate;
- the ability to amend or substitute a performance measure or underpin if one or more events occur which cause the Committee to reasonably consider that an amended or substituted performance measure or underpin would be more appropriate and would not be materially less difficult to satisfy than originally intended;
- the determination of the treatment of individuals who leave employment, based on the relevant plan rules, and the treatment of the awards on exceptional events, such as a change of control of the Company; and
- the ability to make adjustments to existing deferred bonus awards, Restricted Share awards and Share Incentive Plan awards in certain circumstances (e.g. rights issues or corporate restructurings).

Remuneration Policy for Circlers

The approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies.

The majority of Circlers are eligible for either the annual bonus plan or other bonus arrangements. Opportunities vary by organisational level.

Funding Circle is a founder-led business. From inception, a key element of the remuneration philosophy has been to support share ownership across the business. This has been achieved through making equity incentives available to all Circlers to encourage them to behave as owners – taking decisions that balance long-term value creation with achieving shorter-term strategic priorities.

Further details of remuneration arrangements for Circlers are set out on page 89.

Illustrations of the application of the Remuneration Policy

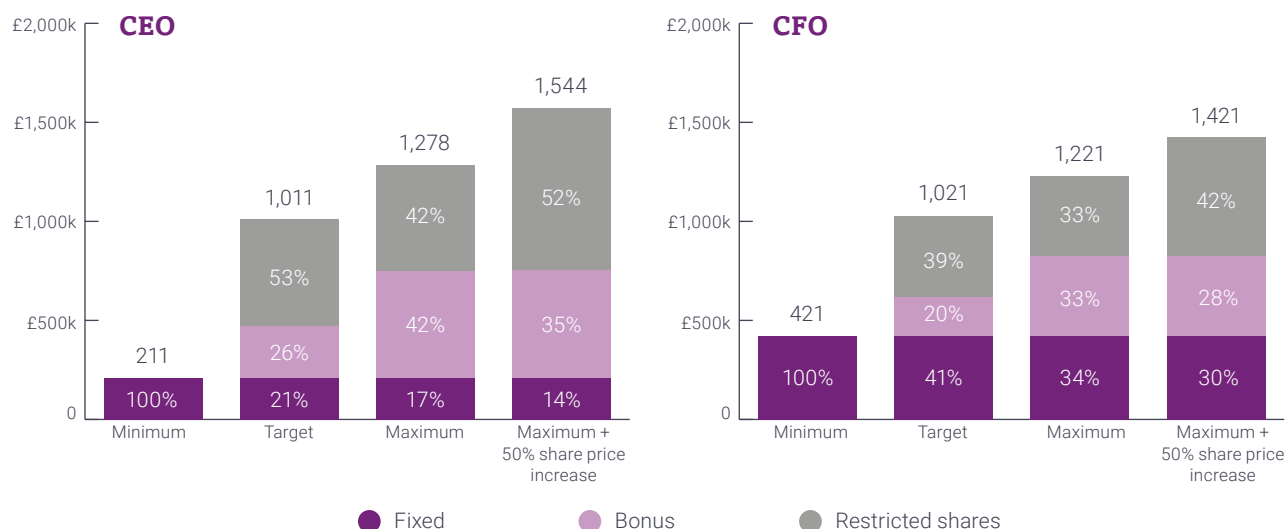


Illustration assumptions

Element of pay	Minimum	Target	Maximum	Maximum + 50% share price appreciation
Fixed remuneration:				
- Base salary – Effective 1 March 2021				
- Benefits – in line with 2020 benefits disclosed in the single figure table				
- Pension – 5% of salary (the CEO has opted not to take up his right to a pension contribution)				
Annual bonus	No payout	50% of maximum (target payout)	Maximum payout	
Restricted shares	No vesting. Assumes the underpin is not met	Grant value vests		Grant value multiplied by 1.5

Legacy Arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office, to exercise any discretion available in relation to any such payment, notwithstanding that they are not in line with the Remuneration Policy set out above where the terms of the payment were agreed:

- before 5 June 2019 (the date the first shareholder-approved Remuneration Policy came into effect);
- at a time when the first shareholder-approved Remuneration Policy was in place provided the payment is in line with the terms of that Remuneration Policy; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company.

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.

The Executive Directors legacy arrangements include:

- 2020 performance based LTIP awards granted to the CFO. See page 92 for details;
- unvested Growth Shares granted to the CEO prior to IPO, which, subject to continued employment, will be fully vested by August 2021; and
- vested but unexercised and unvested nominal cost options granted to the CEO prior to IPO. Subject to continued employment, the unvested options will continue to vest on a quarterly basis, until they are fully vested in June 2023.

Executive Directors' service contracts

The Executive Directors' service contracts are on a rolling basis and are terminable by either the Company or the individual on 12 months' notice for the CEO and six months' notice for the CFO.

	Date of service agreement
Samir Desai, CEO	18 September 2018
Oliver White, CFO	10 June 2020

Directors' remuneration report continued

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below.

Policy

Payment in lieu of notice	<p>The Committee has discretion to make a payment in lieu of notice based on salary for the unexpired period of notice. The payment would be made in monthly instalments and subject to mitigation.</p> <p>Per the CEO's service agreement, the CEO will not receive a payment in lieu of notice where the Committee determines that unvested share awards may remain capable of vesting (which otherwise would ordinarily lapse on cessation of employment).</p>
Annual bonus	<p>This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to pay a bonus in full or in part will be dependent on a number of factors, including the circumstances of the Executive Director's departure and their contribution to the business during the performance period in question. Any bonus earned will normally be pro-rated for time in service during the performance period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances) and in the normal manner. Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.</p>
Deferred bonus award	<p>If an Executive Director leaves for any reason (other than being dismissed for cause) during the deferral period then unvested awards will continue and vest at the normal vesting date. In exceptional circumstances (including if a participant dies), the Committee may decide that the Executive Director's unvested award will vest and be released early at the date of cessation of employment, in which case the Committee has discretion to apply time pro rating in limited circumstances.</p>
Restricted Share awards	<p>The extent to which any unvested awards will vest will be determined in accordance with the LTIP rules.</p> <p>Unvested awards will normally lapse on cessation of employment. However, unless a participant is dismissed for cause, the Committee has discretion to determine that the unvested awards will continue and remain capable of vesting at the normal vesting date. To the extent that the awards vest, a two-year holding period would then normally apply. In exceptional circumstances (including if a participant dies), the Committee may decide that the Executive Director's awards will vest and be released early at the date of cessation of employment or at some other time (e.g. at the vesting date).</p> <p>In either case, vesting will depend on the extent to which the performance underpins have been satisfied and will be subject to a pro rata reduction for time served during the vesting period (although the Committee has discretion to disapply time pro rating if the circumstances warrant it).</p> <p>If an Executive Director leaves for any reason (other than being dismissed for cause) after an award has vested but before it has been released (i.e. during a holding period), their award will ordinarily continue to be released at the normal release date. In exceptional circumstances (including if a participant dies), the Committee may decide that the Executive Director's award will be released early at the date of cessation of employment.</p>
Change of control	<p>Deferred bonus awards and Restricted Share awards will vest early in the event of a takeover, merger or other relevant corporate event.</p> <p>Deferred bonus awards will typically vest in full.</p> <p>As regards Restricted Share awards, vesting will depend on the extent to which the performance underpins have been satisfied, with the Committee taking into account relevant factors at the time, and will be subject to a pro rata reduction for time served during the vesting period (although the Committee has discretion to disapply time pro rating if the circumstances warrant it).</p> <p>Alternatively, the Committee may permit deferred bonus awards and Restricted Share awards to be exchanged for equivalent awards of shares in a different company (including the acquiring company).</p>
Other payments	<p>Executive Directors will be entitled to payment for accrued holiday.</p> <p>Awards under the Share Incentive Plan may be released in the event of cessation of employment or change of control in accordance with the plan rules.</p> <p>The Committee reserves the right to make payments by way of settlement of any claim arising in connection with cessation of employment.</p>
Legacy awards	<p>The extent to which the 2020 performance based LTIP awards vest will be determined in accordance with the LTIP rules and the Remuneration Policy at the time they were granted.</p> <p>The extent to which unvested Growth Shares and pre-IPO options vest will be determined in accordance with the terms of the awards agreed prior to IPO. In particular, additional protection will apply in the event of a termination of 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 participant will be entitled to receive a cash payment or other form of award (the "replacement award") which vests upon the termination of their employment. The value of the replacement award will be determined by reference to the portion of the participant's unvested pre-IPO awards that would have vested (but for the change of control) over the period of 24 months following the change of control or, if later, the 24 months following their termination. The agreed provisions are subject to the Company's discretion to determine that a greater number of shares subject to a pre-IPO award should vest upon a change of control.</p>

Recruitment policy

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment of high calibre executives to strengthen the management team and secure the skill sets necessary to deliver the Group's strategic aims.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the Remuneration Policy as set out above. The Committee may include other elements of pay which it considers appropriate, however, this discretion is capped and is subject to the principles and the limits referred to below. The key terms and rationale for any such element would be disclosed in the Directors' Remuneration Report for the relevant year.

Policy

Salary	Salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
Buy-out awards	<p>It may be necessary to make additional awards in connection with the recruitment to buy-out remuneration terms forfeited by the individual on leaving a previous employer if it considers the cost can be justified and it is in the best interests of the Company. Buy-out awards are not subject to a formal cap. The Committee will seek to make buy-outs subject to what are, in its opinion, comparable requirements in terms of service and performance.</p> <p>Where considered appropriate, buy-out awards will be liable to forfeiture or recovery provisions on early departure.</p>
Maximum level of variable remuneration	The Committee will not offer non-performance-related variable remuneration. The maximum level of variable remuneration which may be granted (excluding buy-out awards) will be in line with the limits for the CEO as set out in the Remuneration Policy above.
Other elements of remuneration	<p>Other elements may be included in the following circumstances:</p> <ul style="list-style-type: none">- An interim appointment being made to fill an Executive Director role on a short-term basis.- If exceptional circumstances require that the Chair or a Non-Executive Director takes on an executive function on a short-term basis.- If an Executive Director is recruited at a time in the year when it would be inappropriate to provide an annual bonus or Restricted Share award for that year. Subject to the limit on variable remuneration set out above, the quantum in respect of the period employed during the year may be transferred to the subsequent year.- If the Executive Director is required to relocate, reasonable relocation, travel and subsistence payments may be provided (either via one-off or ongoing payments or benefits for up to two years).

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

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the variable remuneration limits referred to above, awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Fees payable to a newly appointed Chair or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Policy on external appointments

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

Directors' remuneration report continued

Non-Executive Directors' remuneration

Element of remuneration	Key features	Purpose and link to strategy
Fees	<p>The fees paid to the Non-Executive Directors are determined by the Board as a whole. The Chair and the Non-Executive Directors are paid annual fees and do not participate in any of the Company's incentive arrangements or receive any pension provision or other benefits.</p> <p>Additional fees are payable for additional Board duties, including acting as Senior Independent Director and for chairing the Audit Committee, Risk and Compliance Committee and Remuneration Committee. Additional fees may be paid in the exceptional event that Non-Executive Directors are required to commit substantial additional time above that normally expected for the role.</p> <p>The Non-Executive Directors are not entitled to any compensation on termination of their appointment.</p> <p>The Non-Executive Directors are entitled to reimbursement of reasonable expenses. Additional fees or benefits may be provided at the discretion of the Committee in the case of the Chair, and the Board in the case of the other Non-Executive Directors.</p> <p>Overall fees paid to the Chair and Non-Executive Directors will remain within the limits set by the Company's Articles of Association.</p>	<p>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.</p>

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 forwards, no further options have or will be granted to Non-Executive Directors post-IPO under any of the Company's share option plans. The options held by the relevant Non-Executive Directors are all fully vested.

Letters of appointment

All Non-Executive Directors have letters of appointment with the Company. The appointments of each of the Non-Executive Directors are for an initial term of three years (which thereafter may be extended) and are terminable by either the Company or the individual on one month's notice. The appointment of each Non-Executive Director is subject to re-election at the AGM.

	Date of original appointment ¹	Expiry of current term
Andrew Learoyd	10 September 2018	10 September 2021
Eric Daniels	18 September 2018	18 September 2021
Geeta Gopalan	1 November 2018	1 November 2021
Cath Keers	20 March 2018	20 March 2021 ²
Harry Nelis	5 September 2018	5 September 2021
Neil Rimer	5 September 2018	5 September 2021
Bob Steel	6 September 2018	6 September 2021
Ed Wray	18 September 2018	18 September 2021

1. The date of appointment reflects the commencement date of the initial term as set out in the letter of appointment entered into prior to the IPO.

2. Cath Keers' term will not be extended as she is not standing for re-election at our 2021 AGM.

Consideration of pay and employment conditions

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

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

In 2020 we launched our Circler Promise – our employee value proposition. As part of this we have a new all-Circler 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.

The key elements to the incentive arrangements are:

- The Global Leadership Team and other senior management and senior specialist roles participate in a discretionary share-based LTIP with grant size increasing with seniority. The grants for Circlers in leadership roles include a multiplier for achieving significant share price growth.
- The leadership team, managers and specialists participate in an annual bonus plan (and the majority of Circlers participate in either the annual bonus plan or another form of bonus). 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.
- All Circlers participate in an equity grant that operates in the UK as a Share Incentive Plan.
- 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.

Workforce engagement

As set out on page 26, our workforce engagement director, Cath Keers, has held workforce engagement sessions with Circlers during the course of the year. Feedback from those sessions in relation to employee remuneration was taken into account when considering the new Remuneration Policy and how it would be viewed by Circlers generally. This feedback was also taken into account when determining the new employee value proposition and reward for all Circlers referred to above.

Shareholder engagement

The Committee understands the importance of listening to the views of the Company's shareholders and takes account of the guidelines of investor bodies and shareholder views in determining the remuneration arrangements in operation within the Group. The Committee consulted with the Company's major shareholders on changes to the Remuneration Policy. The Committee is very appreciative of the feedback provided by shareholders which was taken into account when developing the Remuneration Policy.

Annual report on remuneration

This part of the report sets out how the Remuneration Policy has been applied in 2020 and how the Committee intends to apply the new Remuneration Policy in 2021. An advisory shareholder resolution to approve this report will be proposed at the 2021 AGM.

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. In doing so, the Committee ensures that the Remuneration Policy is aligned with the Company's key remuneration principles as well as taking into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture set out in the 2018 UK Corporate Governance Code.

Alignment to strategy and culture	<p>The design of remuneration at Funding Circle is aligned to our values, culture and strategy.</p> <p>The annual bonus is based on Group financial and strategic performance, promoting collective accountability and helping to align the Executive Directors' incentive structure with the wider Group (as an annual cash bonus was introduced in 2020 for the leadership team and for those in manager and specialist roles).</p> <p>Restricted Share awards fully align with our remuneration philosophy of ensuring that senior management are significant share owners, promoting good stewardship and incentivising Executive Directors to create long term value as the business continues to mature.</p>
Clarity and Simplicity	<p>Our 2021 Remuneration Policy aligns the Executive Directors' pay with pay for other Circlers.</p> <p>The new remuneration policy is simple to understand for participants and shareholders and promotes long term stewardship.</p>
Risk	<p>The proposed Remuneration Policy reduces the amount of leverage from the current policy by rebalancing fixed and variable pay as well as short- and long-term incentives.</p> <p>Opportunities are set at a level which rewards performance at the same time as not unduly encouraging excessive risk taking.</p> <p>The annual bonus and Restricted Shares are subject to malus and clawback provisions and the Committee has the discretion to adjust pay outcomes.</p> <p>The Restricted Shares are granted as a fixed number of shares rather than a fixed % of salary. This means that share price appreciation is rewarded and depreciation is penalised.</p>
Proportionality	<p>A significant portion of the total remuneration opportunity for Executive Directors is variable pay. This variable pay is aligned to Company strategy through the choice of performance measures and the link to share price.</p>
Predictability	<p>The Remuneration Policy is clear on the threshold, target and maximum levels of pay that Executives can earn. Notwithstanding that actual outcomes will vary based on the level of achievement and share price performance.</p>

The key responsibilities of the Committee are summarised on page 58 and further details on the Committee's roles and responsibilities can be found in our Terms of Reference on our corporate website.

Annual report on remuneration continued

Committee composition

None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and are all considered to be independent. The Company Secretary acted as Secretary to the Committee.

Committee members	Number of meetings attended
Cath Keers, Chair	5/5
Andrew Learoyd	5/5
Ed Wray	5/5

The Committee's composition, responsibilities and operation comply with the principles of good governance.

The Executive Directors, Chief People Officer, other members of the senior management team and our external remuneration consultants, Deloitte LLP, were invited to Committee meetings where it was deemed appropriate. No individuals were involved in decisions relating to their own remuneration.

Committee effectiveness

As noted on page 65, the Committee undertook an effectiveness review during 2020, whereby each Committee member and, by invitation, the Chief People Officer, completed a tailored questionnaire. The question set covered topics such as the quality of the remuneration support provided to the Committee and the appropriateness of the remuneration policies and practices implemented in 2020. Following a productive discussion, the Committee confirmed that the support provided to the Committee had improved over the course of the year and also agreed a number of actions to be implemented to further enhance the Committee's effectiveness.

External advisers

The Committee is satisfied that the advice it has received from Deloitte LLP as remuneration consultants is independent and that the engagement partner and team that have provided remuneration advice do not have connections with the Company that might impair their independence. Deloitte is a founder member of the Remuneration Consultants Group and, as such, voluntarily operates under its Code of Conduct in relation to executive remuneration matters in the UK.

The fee paid to Deloitte LLP in 2020 in relation to advice provided to the Committee was agreed by the Company in advance for specific projects and was £37,350. Deloitte also provided advice to the Group during 2020 in relation to risk advisory and share plan advisory services.

Shareholder voting

The Committee's resolutions at the Company's 2019 AGM in respect of the Remuneration Policy and the Annual Report on Remuneration and the 2020 AGM in respect of the Annual Report on Remuneration received the following votes from shareholders:

	2019 AGM Remuneration Policy		2019 AGM Remuneration Policy		2020 AGM Annual Report on Remuneration	
Votes cast in favour	256,886,226	99.6%	256,867,652	99.6%	250,701,355	99.99%
Votes cast against	769,531	0.3%	783,726	0.3%	34,346	0.01%
Votes withheld	317,854	0.1%	322,233	0.1%	2,272	0.0009%
Total votes cast (including withheld)	257,973,611	100%	257,973,611	100%	250,737,973	100%

Single total figure of remuneration (audited)

The following tables set out the aggregate emoluments earned by the Directors in the year ended 31 December 2020 and 2019 respectively.

2020	Salary and fees ¹ £000	Taxable benefits ² £000	Bonus £000	Pensions ³ £000	Long-term incentives ⁴ £000	Total £000	Other	Total fixed £000	Total variable £000
Executive Directors									
Samir Desai	200	1	—	—	—	201	—	201	—
Oliver White (appointed 15 June 2020)	215	1	—	7	—	223	288 ⁵	223	—
Sean Glithero (resigned 20 May 2020) ⁶	137	1	—	4	—	142	—	142	—
Non-Executive Directors									
Andrew Learoyd	190	—	—	—	—	190	—	190	—
Ed Wray ⁷	55	—	—	—	—	55	—	55	—
Eric Daniels	62	—	—	—	—	62	—	62	—
Bob Steel	62	—	—	—	—	62	—	62	—
Cath Keers	62	—	—	—	—	62	—	62	—
Geeta Gopalan	62	—	—	—	—	62	—	62	—
Hendrik Nelis ⁸	—	—	—	—	—	—	—	—	—
Neil Rimer ⁸	—	—	—	—	—	—	—	—	—
2019									
Executive Directors									
Samir Desai	210	1	—	—	—	211	—	211	—
Sean Glithero ⁶	300	1	—	8	—	309	—	309	—
Non-Executive Directors									
Andrew Learoyd	200	—	—	—	—	200	—	200	—
Ed Wray ⁷	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 ⁸	—	—	—	—	—	—	—	—	—
Neil Rimer ⁸	—	—	—	—	—	—	—	—	—

1. The Board and the Global Leadership Team voluntarily reduced their salaries and fees by 20% over the period March to May 2020 in response to the Covid-19 pandemic. The figures disclosed above are after the 20% voluntary reduction.

2. 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.

3. Executive Directors were eligible for a 5% of base salary pension contribution with effect from October 2020 (previously 3% of base salary). The CEO has opted not to take up his right to the pension contribution.

4. No long-term incentives vested in respect of 2019 or 2020.

5. The buy-out of Oliver White's Vanquis 2019 and 2020 bonus awards forfeit on cessation of employment. See page 92 for details.

6. Salary includes nine days of accrued annual leave.

7. Ed Wray stepped down as Chairman of Funding Circle Ltd in April 2020, at which point his Non-Executive Director fee became £55,000 in line with the Non-Executive Director base fee.

8. Hendrik Nelis and Neil Rimer, who are not independent Non-Executive Directors, have waived their entitlement to a fee.

Annual report on remuneration continued

LTIP award granted during 2020

As disclosed in the RNS announcement dated 23 June 2020, a performance based LTIP award was granted to Oliver White on 19 June 2020 equal to 200% of salary. Samir Desai decided not to take up his LTIP award for 2020. Details of the award are set out below:

Type of award	Number of shares	Face value at grant ¹	% if award vesting at threshold	Performance period
Nil-cost share option	925,390	£800,000	25%	3 years to 31 December 2022

1. Based on a grant date share price of £0.8645.

Given the uncertain outlook presented by the Covid-19 pandemic and in line with guidance published by the Investment Association, the Committee deferred the approval of performance metrics and targets. Following careful consideration, the performance metrics and targets were subsequently approved in December 2020. The LTIP award is subject to EPS performance (as regards 50% of the award) and Fee Income performance (as regards 50% of the awards). The Board considers the actual targets to be commercially sensitive at this time, however, we will provide retrospective disclosure of these targets at the time of vesting.

The Committee may apply its discretion to amend the vesting outcome should any formulaic assessment of performance not reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the performance period. This includes consideration of 'windfall gains' over the performance period.

To the extent that the award vests, a holding period will apply from the date of vesting to the fifth anniversary of the grant date (19 June 2025).

Buy-out awards for Oliver White

As set out in the letter from the Remuneration Committee Chair, on joining Funding Circle, Oliver White forfeited his 2019 and 2020 bonus at his previous employer.

With regards to the 2019 bonus buy-out, the value of the award (£208,000) was determined based on the 2019 bonus that Oliver would have received had he not ceased employment. The award will vest and become capable of exercise on 19 June 2021 subject to continued employment. Details of the award are set out below:

Type of award	Number of shares	Face value at grant ¹
Nil-cost share option	240,602	£208,000

1. Based on a grant date share price of £0.8645.

With regards to the 2020 bonus buy-out, Oliver White's 2020 Vanquis bonus had a maximum of £285,000 and a target of £178,500. It was originally agreed to replace this bonus with a Funding Circle "buy out bonus" on comparable terms. In May 2020 (before he joined the Company), the Committee reconsidered the 2020 bonus buy-out award in light of advice from its remuneration advisers on the likely impact of the pandemic on the banking sector and agreed a safeguard equal to the threshold bonus amount. Following the commencement of Oliver White's employment with Funding Circle, it was agreed that for any bonus to be paid, the award would be subject to two metrics based on Funding Circle's performance in the period as follows:

- AEBITDA (70%): achievement of the H2 forecast.
- Strategic: (30%): Utilise financial services expertise to initiate and begin development of core capability in respect of balance sheet management (ALM). Create and build strong relationships among internal, external, regulatory (FCA) and investor stakeholder groups, enhancing the reputation of both the Finance function and the wider company in day to day interactions.

Both of these performance metrics were met in full. In March 2021 the Committee reconsidered the safeguard in light of performance, the external environment and the approach being taken within the banking sector on bonus awards. Reflecting on these factors, the Committee agreed that a 2020 bonus buy-out award at just under target performance of £80,000 (once pro-rated for time) was appropriate. This bonus buy-out will be paid 100% in nil-cost options which will be granted on 26 March 2021 and will vest on 26 March 2022, subject to continued employment.

Directors' shareholding and share interests (audited)

Table of Directors' share interests as at 31 December 2020¹

	Beneficially owned shares ^{2,3}	Vested but unexercised awards	Unvested awards (not subject to performance conditions)	Unvested awards (subject to performance conditions)	Total
Executive Directors					
Samir Desai	15,867,386	806,250	1,746,875	—	18,420,511
Oliver White (appointed 15 June 2020)	5,336	—	240,602	925,390	1,171,328
Sean Glithero (resigned 20 May 2020)	541,908	107,692	323,888 ⁴	584,246 ⁴	1,557,734
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	—	383,204	—	—	383,204
Bob Steel	614,754	350,000	—	—	964,754
Cath Keers	12,045	—	—	—	12,045
Geeta Gopalan	33,216	—	—	—	33,216
Hendrik Nelis	—	—	—	—	—
Neil Rimer	—	—	—	—	—

1. Or date of leaving employment from the Company if earlier. Sean Glithero resigned from the Board on 20 May 2020 and left employment on 2 July 2020.

2. Includes shares owned by connected persons.

3. Vested Growth and ESS Shares are treated as legally owned shares.

4. Unvested Growth Shares and unvested LTIP awards held by Sean Glithero lapsed in full following his cessation of employment.

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 2020 financial year, the CEO complied with this requirement. The CFO was appointed to the Board on 15 June 2020 and currently holds unvested options subject to continued employment only (which count towards the shareholding guideline) equal to 54% of salary, calculated on 31 December 2020 when the share price was £0.90. Unvested awards subject to performance conditions 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 have or will be granted to Non-Executive Directors post-IPO 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 2020	Awards granted in the year	Awards lapsed in the year
Executive Directors				
Samir Desai				
Vested	Growth	600,000	—	—
	ESS	625,032	—	—
Unvested	Growth	1,209,375	—	—
	Unapproved	—	—	—
	SIP	—	4,991	—
	Growth	—	—	—
	ESS	—	—	—
	Growth	940,625	—	—
	Unapproved	2,150,000	—	—
Oliver White				
Unvested	2018 Long Term Incentive Plan	—	925,390	—
	2018 LTIP Bonus	—	240,602	—
	SIP	—	4,991	—
Sean Glithero				
Vested	Growth	379,336	—	—
Unvested	Growth	433,527	—	(270,955)
	2018 Long Term Incentive Plan	584,246	—	(584,246)
	Unapproved	431,850	—	(323,888)
Non-Executive Directors				
Andrew Learoyd				
Vested	Unapproved	100,000	—	—
Ed Wray				
Vested	Unapproved	571,400	—	—
	Unapproved	100,000	—	—
Eric Daniels				
Vested	Unapproved	195,704	—	—
	Unapproved	175,781	—	—
Unvested	Unapproved	11,719	—	—
Bob Steel				
Vested	Unapproved	250,000	—	—
	Unapproved	100,000	—	—

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

Payments for loss of office

Sean Glithero resigned as CFO and from the Board on 20 May 2020. He did not receive any payments linked to his resignation. Unvested Growth Shares and unvested LTIP awards held by Sean lapsed in full on cessation of his employment.

Payments to former Directors

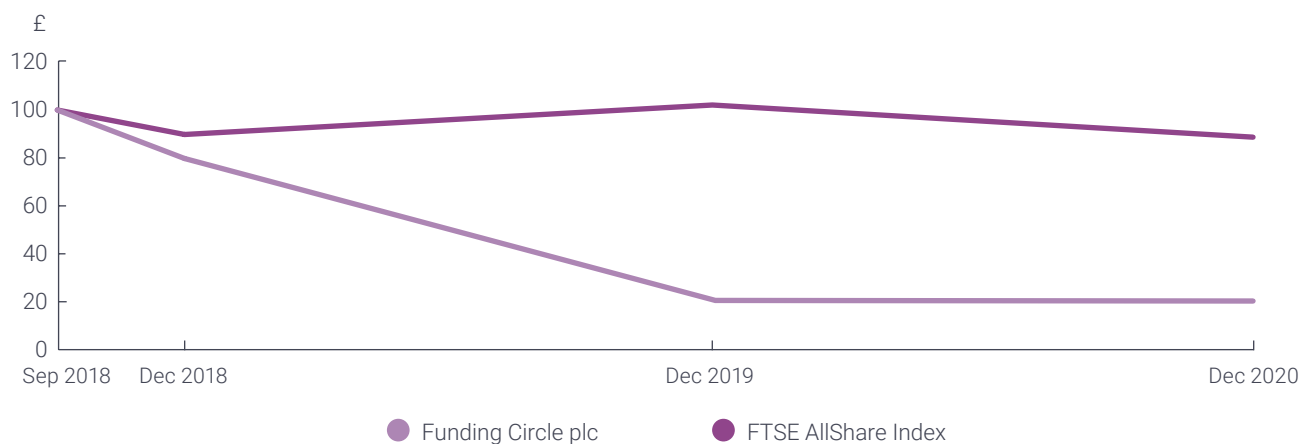
There were no payments made to former Directors during the year.

Awards vested in the year	Awards exercised in the year	No. of awards at 31 December 2020	Date of grant/vesting commenced	Exercise price/ subscription price	Market price on exercise
—	—	600,000	10/03/2014	£0.00	n/a
—	—	625,032	18/06/2015	£0.00	n/a
537,500	—	1,746,875	01/08/2017	£0.02	n/a
806,250	—	806,250	13/06/2018	£0.001	n/a
—	—	4,991	03/11/2020	£0.00	n/a
—	—	—	10/03/2014	£0.00	n/a
—	—	—	18/06/2015	£0.00	n/a
(537,500)	—	403,125	01/08/2017	£0.02	n/a
(806,250)	—	1,343,750	13/06/2018	£0.001	n/a
—	—	925,390	19/06/2020	£0.00	n/a
—	—	240,602	19/06/2020	£0.00	n/a
—	—	4,991	03/11/2020	£0.00	n/a
162,572	—	541,908	01/10/2017	£0.02	n/a
(162,572)	—	—	01/10/2017	£0.02	n/a
—	—	—	28/06/2019	£0.00	n/a
—	(107,962)	—	13/06/2018	£0.861	n/a
—	—	100,000	18/06/2015	£0.32	n/a
—	—	571,400	19/08/2011	£0.03	n/a
—	—	100,000	18/06/2015	£0.32	n/a
—	—	195,704	22/04/2013	£0.03	n/a
11,719	—	187,500	01/03/2016	£0.39	n/a
(11,719)	—	—	01/03/2016	£0.39	n/a
—	—	250,000	15/07/2014	£0.21	n/a
—	—	100,000	18/06/2015	£0.35	n/a

Annual report on remuneration continued

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	2020	2019	2018	2017	2016
CEO total remuneration ^{1,2}	201	211	4,081	204	160

1. The 2018 figure includes share options that were granted prior to IPO which were subject to continued employment only.

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.

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

	2020	2019	% Change
Total income	£222.0m	£177.3m	25%
Adjusted EBITDA	£(63.8)m	£(27.5)m	132%
Employee costs	£89.5m	£96.9m	(8)%
Average number of employees	911	1,055	(14)%

Percentage change in Directors' remuneration compared with employees

The table below sets out the annual percentage change in remuneration from 2019 to 2020 for each of the Directors compared to that for an average employee.

	2019 to 2020		
	Salary/fees ¹	Benefits	Annual bonus
Executive Directors			
Samir Desai	-5%	0%	n/a
Oliver White ²	n/a	n/a	n/a
Non-Executive Directors			
Andrew Learoyd	-5%	—	—
Ed Wray ³	-15%	—	—
Eric Daniels	-5%	-100%	—
Bob Steel	-5%	—	—
Cath Keers	-5%	-100%	—
Geeta Gopalan	-5%	—	—
Hendrik Nelis ⁴	n/a	—	—
Neil Rimer ⁴	n/a	—	—
Average employee⁵	-1.7%	+1.8%	+61.2%

1. The Board and the Global Leadership Team voluntarily reduced their salaries and fees by 20% over the period March to May 2020 in response to the Covid-19 pandemic. There has therefore been a reduction in salaries and fees received by Directors during 2020 compared to 2019.

2. Oliver White was appointed to the Board on 15 June 2020.

3. Ed Wray stepped down as Chairman of Funding Circle Ltd in April 2020, at which point his Non-Executive Director fee became £55,000 in line with the Non-Executive Director base fee.

4. Hendrik Nelis and Neil Rimer, who are not independent Non-Executive Directors, have waived their entitlement to a fee.

5. The annual percentage change of the average remuneration of the Company's employees, calculated on a full-time equivalent basis.

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.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	5.8:1	3.8:1	2.3:1
2019	Option A	6.8:1	3.9:1	2.5:1

There has been no significant change to the employee pay quartile figures, however as the CEO voluntarily reduced his salary by 20% over the period March to May 2020 in response to the Covid-19 pandemic our CEO pay ratio has slightly reduced.

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

Total pay and benefits used to calculate the ratios

The table below sets out the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure.

	CEO	25th percentile	Median	75th percentile
2020				
Salary component	£199,500	£29,379	£44,083	£77,667
Total pay and benefits	£200,695	£34,669	£53,195	£88,401
2019				
Salary component	£210,000	£27,576	£45,818	£78,798
Total pay and benefits	£211,000	£30,921	£54,035	£83,298

The CEO remuneration is the total single figure remuneration for 2019 and 2020 as disclosed on page 91. The UK employee total remuneration has been calculated based on the amount paid or receivable for 2019 and 2020. The calculations for the UK employees were performed as at the final day of the relevant financial year.

Annual report on remuneration continued

Fees for the Chairman and Non-Executive Directors

The fees payable to the Non-Executive Directors in 2020 and for 2021 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

Implementation of the Remuneration Policy for the year ended 31 December 2021

Salary

As per the Chair's statement, we believe that the CEO's annual base salary should be more closely aligned to the market. The CEO's salary remains unchanged since before IPO and is some way behind the market. We believe that a salary of £400,000, which still remains below the lower quartile of FTSE SmallCap Top Half companies, is appropriate at this current time.

Due to the pandemic and the impact on key stakeholders (Circlers, customers and the wider society) Samir feels strongly that now is not the right time to receive his salary increase. Therefore for 2021, he has chosen to waive his salary increase and will therefore only receive £210,000. His incentives will be based on his reference salary of £400,000.

The table below shows the salaries for the Executive Directors as at 1 January 2021 in comparison to base salary as at 1 January 2020.

	1 January 2021	1 January 2020 ¹	% change
Samir Desai	£210,000	£210,000	—
Oliver White	£400,000	£400,000	—

1. Oliver White's salary was set at £400,000 on his appointment to the Board (15 June 2020).

Annual bonus

The maximum opportunity for the CEO is 133% of reference salary and for the CFO is 100% of salary. The target opportunity for both is 50% of maximum opportunity. The annual bonus measures will be AEBITDA, Operating Income and strategic objectives (each weighted one-third). 40% of any bonus earned will be deferred into shares for three years.

The Board considers the actual targets for 2021 to be commercially sensitive at this time, however, we will provide retrospective disclosure of these targets in next year's report.

The Committee may apply its discretion to amend the bonus pay-out should any formulaic assessment of performance not reflect the Committee's assessment of overall business performance, the performance of the individual, or the experience of shareholders or other stakeholders over the performance period.

Restricted Share awards

Restricted Share awards will be granted in 2021 under the new Remuneration Policy, if approved. The CEO will be awarded Restricted Shares with a value equal to 133% of reference salary and the CFO an award with a value equal to 100% of salary. For these purposes, the market value of a share will be determined by the Committee using an average share price. The number of shares will be disclosed at the date of grant.

Vesting of the Restricted Shares will be subject to a financial underpin based on operating income as well as qualitative underpins to ensure that Executive Directors are not rewarded where the Committee considers there to have been a failure in performance, including serious breach of regulation, material reputational damage and gross misconduct. The financial underpin has been set such that annual operating income must be on average £150 million over the period of three years from 2021 to 2023. Prior to the vesting of the Restricted Shares, the Committee will assess whether actual performance of the Company and Executive Directors is reflected to guard against payment for failure or against windfall gains. The Committee retains the discretion to make any adjustment to vesting it deems necessary.

2021 Non-Executive Director remuneration

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

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), the 2018 UK Corporate Governance Code and the UK Listing Authority's Listing Rules.

Report of the Directors

for the year ended 31 December 2020

The Directors present their report (the "Directors' Report") and the Annual Report and Accounts for the year ended 31 December 2020. 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 51)
Going concern and viability statement	Viability statement (pages 48 and 49)
Directors' interests	Remuneration Report (page 93) and Directors' Report (page 100)
Long-term incentive schemes	Remuneration Report (page 92)
Waiver of emoluments	Remuneration Report (pages 79 and 91)
Powers for the Company to buy back its shares	Directors' Report (page 100)
Allotment of shares during the year	Note 18 to the financial statements
Significant shareholders	Directors' Report (page 101)
Related party agreements	Note 26 to the financial statements
Diversity Policy	Nomination Committee Report (page 67)
Statutory information	
Stakeholder engagement	Stakeholder engagement (pages 26 and 27). See also Board decision making and section 172 duties on page 61 of the Corporate Governance Report
Employee engagement	Stakeholder engagement (pages 26 and 27) and Our people (page 19). See also Board decision making and section 172 duties on page 61 of the Corporate Governance Report
Policy concerning the employment of disabled persons	Our people (page 21)
Financial instruments	Note 17 to the financial statements
Future developments of the business	Strategic Report (pages 4 to 18)
Greenhouse gas emissions, energy consumption and energy efficiency action	Sustainability (page 24)
Significant agreements	Directors' Report (page 101)
Non-financial reporting	Strategic Report – see below

Management Report

This Directors' Report, together with the Strategic Report on pages 1 to 49, 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 49.

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 Our people on pages 19 to 21, Sustainability on pages 22 to 25, Our model on pages 14 and 15, Strategic priorities on page 18, Key performance indicators on pages 28 and 29 and the Risk management, Principal risks and uncertainties and Viability statement sections on pages 36 to 49.

Directors

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

Andrew Learoyd (Chairman)	Cath Keers (Independent Non-Executive Director)
Samir Desai CBE (co-founder, Chief Executive Officer)	Bob Steel (Senior Independent Director)
Oliver White – appointed on 15 June 2020 (Chief Financial Officer)	Ed Wray (Independent Non-Executive Director)
Eric Daniels (Independent Non-Executive Director)	Hendrik Nelis (Non-Executive Director)
Geeta Gopalan (Independent Non-Executive Director)	Neil Rimer (Non-Executive Director)

Sean Glithero was a Director (and Chief Financial Officer) during 2020 up until his resignation on 20 May 2020.

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 separate deed of indemnity. The Company also indemnifies each Director under its Articles of Association. Such indemnities are qualifying indemnities for the purposes of, and permitted under, section 234 of the Act.

Report of the Directors continued

for the year ended 31 December 2020

Directors' interests

The number of ordinary shares in which the Directors were beneficially interested as at 31 December 2020 is set out in the Directors' Remuneration Report on page 93. In the period between 31 December 2020 and 19 March 2021 (being the latest practicable date prior to the date of this report), the following additional ordinary shares were allotted to Samir Desai and Oliver White under the Company's Share Incentive Plan (and as announced via RNS):

Name of Director	Number of Partnership Shares	Number of Matching Shares
Samir Desai	410	410
Oliver White	410	410

There were no other changes during that period to the number of ordinary shares in which the Directors were beneficially interested.

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). The Board has formal procedures to deal with Directors' conflicts of interest.

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

Results and dividends

The Group's and the Company's audited financial statements for the year are set out on pages 112 to 170.

The Directors do not recommend payment of a final dividend for 2020 (2019: £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. All Directors will offer themselves for re-election to the Company's Board at the AGM, with the exception of Cath Keers, Bob Steel and Ed Wray who, as mentioned previously, will be stepping down from the Board with effect from the date of the AGM.

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 2021 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 34,905,603 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 2020 comprises 352,943,975 ordinary shares of £0.001 each. Further information regarding the Company's issued share capital can be found on page 149 of the financial statements.

Details of the shares held by the Group's Employee Benefit Trusts 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 Trusts rank *pari passu* with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to shares held in trust rest with the Trustees and are not exercisable by employees, although the Trustees will exercise such rights arising from allocated shares in accordance with the relevant participant's directions.

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 dealing and market requirements relating to closed periods) and requirements of the Disclosure Guidance and Transparency Rules, as well as the Company's own dealing codes, whereby Directors, persons connected to the Directors and certain employees of the Company require approval to deal in the Company's securities.

Change of control

The details of the protections that apply in the event of termination of employment due to a takeover bid in respect of certain of the CEO's pre-IPO awards are set out on page 86 under "Legacy awards". These additional protections also apply to LTIP awards held by the GLT (excluding the Executive Directors). Save in respect of these awards, 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. In addition, the Group participates in one or more lending schemes that benefit from a form of

government-backed guarantee and it is expected that, in the event of a change of control of the Company, the consent of the relevant loan guarantor would be required to enable the Group's continued participation in those schemes.

Significant shareholdings

As at 31 December 2020 and 28 February 2021, 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 2020	Percentage issued share capital as at 31 December 2020	Number of ordinary shares as at 28 February 2021	Percentage issued share capital as at 28 February 2021	Nature of holding
Index Ventures	58,618,351	16.61	58,618,351	16.61	Indirect
Aktieselskabet CBH	46,507,936	13.18	46,507,936	13.18	Indirect
Accel London Management	26,906,743	7.62	26,906,743	7.62	Indirect
T Rowe Price Global Investments	24,092,587	6.83	24,097,998	6.83	Indirect
Jupiter Asset Management	17,329,661	4.91	18,617,864	5.27	Indirect
DST Managers	16,505,378	4.68	16,505,378	4.68	Indirect
Mr Samir Desai	15,867,386	4.50	16,002,369	4.53	Indirect
Capital Group	14,196,606	4.02	14,713,073	4.17	Indirect
Union Square Ventures	12,269,474	3.48	11,339,637	3.21	Indirect
Ninety One	8,960,382	2.54	11,336,226	3.21	Indirect

In the period between 28 February and 19 March 2021 (the latest practicable date prior to the date of this report), the Company received no further notification pursuant to DTR5.1.

Research and development

The Group invests in the research and development of technology and software products that enable it to achieve its key performance objective of growing lending to small businesses whilst delivering resilient 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, 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 2021 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.

2021 AGM

The Company's AGM will take place on 19 May 2021 at its offices at 71 Queen Victoria Street, London EC4V 4AY.

The Board is closely monitoring the applicable Covid-19 restrictions, and will provide an update on our website at

corporate.fundingcircle.com/investors/shareholder-meetings and, where appropriate, by an announcement via a Regulatory Information Service, if any changes are required to the AGM arrangements.

Given the uncertainty around whether shareholders will be able to attend the AGM, we strongly recommend that all shareholders appoint the chair of the meeting as their proxy. Shareholders can do this by completing and returning their proxy form or by submitting their proxy form electronically through the Company registrars' website, the CREST service or via the Proximity platform. Shareholders who have already registered with our registrar's online portfolio service, Shareview, can submit their proxy by logging on to their portfolio at 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 accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, 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's 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.

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's 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and profit of the 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
25 March 2021

FINANCIAL STATEMENTS

104	Independent auditors' report
112	Consolidated statement of comprehensive income
113	Consolidated balance sheet
114	Consolidated statement of changes in equity
115	Consolidated statement of cash flows
116	Notes forming part of the consolidated financial statements
160	Company balance sheet
161	Company statement of changes in equity
162	Company statement of cash flows
163	Notes forming part of the Company financial statements
171	Glossary
172	Shareholder and Company information

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 2020 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 December 2020; 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- Our audit included full scope audits of the UK and US components which accounted for approximately 97% of the Group's total income and 85% of the Group's loss before taxation.
- We performed audit procedures over specific balances in respect of the Funding Circle Central Europe ("FCCE") component at a Group level which together with the full scope audits accounted for 98% of the Group's total income and 93% of the Group's loss before taxation.

Key audit matters

- Impact of Covid-19 on the audit (Group and Company)
- Valuation of SME loans and related liabilities recorded at fair value (Group)
- Valuation of loan repurchase liability (Group)
- Carrying value of investment in the US subsidiary and valuation of the non-financial assets in the US CGU (parent and Group respectively)

Materiality

- Overall Group materiality: £1,890,000 (2019: £2,500,000) based on 5% of the average of loss before taxation for the previous three years, adjusted for exceptional items and fair value gains and losses.
- Overall Company materiality: £3,400,000 (2019: £5,000,000) based on 1% of total assets.
- Performance materiality: £1,400,000 (Group) and £2,500,000 (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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Group's provision of regulated products and services under its Financial Conduct Authority ("FCA") licence, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journals to increase income or reduce costs and the application of management bias in key 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:

- review of correspondence with, and reports to, the FCA;
- review of customer complaints to identify any indicators of breaches in laws and regulations;
- enquiries of management, the Directors, the Chair of the Audit Committee, the Head of Internal Audit, the Group's general counsel and the Group's head of legal and regulatory, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- review of all internal audit reports issued in the period to identify any indicators of breaches in laws and regulations;
- identifying and testing journal entries and period end adjustments, including those with unusual account combinations, posted with certain descriptions, posted by unexpected users or posted at unusual times;
- incorporating unpredictability into our testing, including sample testing of senior employee expenses, validity of supplier listings and initial checks on loans originated in the period, including BBLs and PPP loans; and
- challenging significant assumptions and judgements made by management in its accounting estimates, in particular in relation to the valuation of SME loans and related liabilities recorded at fair value, the loan repurchase liability and impairment assessments.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

The valuation of the loan repurchase liability, the valuation of the non-financial assets in the US CGU and the impact of Covid-19 are new key audit matters this year. The accounting for the Asset Backed Securities ('ABS') bond programmes and the capitalisation of development costs, which were key audit matters last year, are no longer included because this is the second year of the ABS programmes and the accounting has not changed, and improvements in internal procedures over the capitalisation of development costs has reduced the level of audit effort associated with this area. Otherwise, the key audit matters below are consistent with last year.

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
<p>Impact of Covid-19 on the audit (Group and Company) Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements (page 70) and note 1 (accounting policies).</p> <p>The impact of the Covid-19 pandemic has resulted in unprecedented economic conditions and resulting government support programmes and regulatory interventions to support businesses and people. The Covid-19 pandemic has also changed the way that companies operate their businesses, with one of the most substantial impacts being the transition to remote working.</p> <p>All of Funding Circle's employees have been working remotely during 2020, with some consequential changes on their processes and the control environment, some of which were relevant for financial reporting purposes. Our audit team has also been working remotely for all of 2020 including during the period when we performed the audit.</p> <p>The impact of the Covid-19 pandemic and resulting uncertainty has impacted a number of the estimates in the Group and Company financial statements. The impact on the most significant accounting estimates and the related audit work is set out in the following other key audit matters in this opinion: valuation of SME loans and related liabilities recorded at fair value; valuation of loan repurchase liability; and carrying value of investment in the US subsidiary and valuation of the non-financial assets in the US CGU.</p>	<p>We engaged with the Audit Committee and management at Funding Circle in a manner consistent with our previous audits, albeit remotely using video and telephone calls.</p> <p>All of the information and audit evidence we need for the audit is provided in electronic format. We shared information, including the audit evidence provided to us by Funding Circle, using share-screen functionality in video calls and our secure encrypted information sharing software.</p> <p>We understood and assessed the transition of the Group's employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach for new or changed processes and controls.</p> <p>Where the Group has undertaken new business activities as a result of Covid-19, for example, the government sponsored lending programmes in the UK and US, we assessed the audit risks and designed appropriate audit procedures to address these.</p> <p>We were not able to visit the US audit during our 2020 audit. However, we engaged with and directed this team in a manner consistent with our previous audits using video conferencing and telephone calls. This included a 'virtual visit' to the US where we met with both the audit team and local management. To ensure we were satisfied with the audit work performed by the US team we evaluated and reviewed audit evidence by remotely reviewing electronic audit files or using share-screen functionality in video conferencing.</p>
<p>Valuation of SME loans and related liabilities recorded at fair value (Group) Refer to Report of the Audit Committee – Significant issues considered in relation to the financial statements (page 71); note 1 (accounting policies); note 2 (critical accounting estimates and key sources of estimation uncertainty); note 13 (investments in SME loans); and note 17 (financial risk management) of the Consolidated financial statements.</p> <p>As at the balance sheet date, the Group had not sold its residual holding in three securitisation vehicles and these were consolidated. As a result, the underlying SME loans held in the securitisation vehicles remain on the 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 with resultant gains and losses recognised in the income statement.</p> <p>As at the balance sheet date, the Group holds investments in SME loans amounting to £501.6 million and unrated bond liabilities of £7.8 million which are recorded at fair value with gains and losses reported in profit and loss. The estimation of the fair value of the SME loans and the bond liabilities requires complex models which utilise both observable and unobservable inputs, with reasonable movements in each key assumption resulting in material changes to the fair value. The level of estimation uncertainty has increased as a consequence of Covid-19 and judgement is required to determine an appropriate discount rate and the other key assumptions. As a result the valuation of the SME loans has been a focus in our audit.</p>	<p>Our audit procedures comprised the following:</p> <ul style="list-style-type: none"> - We understood and evaluated the design and implementation of controls relating to the valuation of the Group's portfolio of SME loans. - We engaged our valuation experts to assess the appropriateness of the methodology used by management in determining the valuation of the investments in SME loan assets and bond liabilities held at fair value. This included assessing the appropriateness, in the context of Covid-19, of the key assumptions within the valuation model which we considered to be the discount rate, default rate, recovery 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 was within a reasonable range. - We built our own independent model to re-calculate the fair value using management's assumptions. - We performed sensitivity analyses over each of the key assumptions in light of market rates, comparables and underlying performance of the loans. - We performed testing over the historical loan performance data that is a starting point for the forward looking assumptions. - We 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 cash payments. <p>Based on the above procedures performed, and the evidence obtained, we concluded that the estimated fair value of the SME loans and bond liabilities was reasonable.</p> <p>We evaluated the appropriateness of the critical accounting estimates and key sources of estimation uncertainty in note 2 to the Consolidated financial statements and the disclosures on financial instruments in note 17 and considered these to be reasonable.</p>

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
<p>Valuation of loan repurchase liability (Group)</p> <p>Refer to the Report of the Audit Committee – Significant issues considered in relation to the financial statements (page 72); note 1 (accounting policies); note 2 (critical accounting estimates and key sources of estimation uncertainty); and note 16 (provisions and other liabilities) of the Consolidated financial statements.</p> <p>The Group takes the credit risk on two portfolios of SME loans through financial guarantees. As at the balance sheet date the total value of the SME loans subject to guarantees amounted to £24.3 million (2019: £41.5 million). These fall within the scope of IFRS 9 and require the Group to estimate the value of the guarantees using the expected credit loss ('ECL') model.</p> <p>The loan repurchase liability has increased from £2.9 million (2019) to £5.2 million (2020) with an increase in the estimated loss ratio from 7% to 21%. This is a result of the increase in actual and expected defaults given the current and future economic environment. The estimation of the value of the loan repurchase liability requires complex modelling which utilises both observable and unobservable inputs, with the most sensitive input being the expected default rate. As a result the valuation of the loan repurchase liability and specifically the expected default rate has been a focus in our audit.</p>	<p>Our audit procedures comprised the following:</p> <ul style="list-style-type: none">- We understood and evaluated the design and implementation of controls relating to the estimation of the loan repurchase liability.- We engaged our risk modelling specialists to assess the appropriateness of the ECL methodology used by management in determining the valuation of the loan repurchase liability.- We assessed the appropriateness of the key assumption within the model, which we consider to be the expected default rate, and how management had incorporated forward looking economic information.- We performed testing over a sample of the historical default and recovery performance data as well as over other model assumptions including the staging and exposure at default.- We performed testing over the mathematical accuracy and integrity of the ECL model, including independently fitting the default curve data to assess whether the curve being used in the model was appropriate.- We challenged management to consider forward looking information in their staging allocation resulting in additional analysis showing a stepped increase in stage for all the higher risk sectors did not result in a material change in the liability.- We performed sensitivity analyses on the assumptions used in the model to assess whether reasonable alternatives would present the possibility of a materially different liability. <p>Based on the above procedures performed, and evidence obtained, we concluded that the valuation of the loan repurchase liability estimated by management was reasonable.</p> <p>We evaluated the appropriateness of the critical accounting estimates and key sources of estimation uncertainty in note 2 and the disclosures in note 16 to the Consolidated financial statements and considered these to be reasonable.</p>
<p>Carrying value of investment in the US subsidiary and valuation of the non-financial assets in the US CGU (Group and parent)</p> <p>Significant issues considered in relation to the financial statements (page 71); note 2 (critical accounting judgements and key sources of estimation uncertainty); and note 10 (goodwill) of the Consolidated financial statements and note 1 (accounting policies); and note 5 (investments in subsidiary undertakings) of the Company financial statements.</p> <p>The Company holds an investment in the US subsidiary with a carrying value pre-impairment of £244.1 million. 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:</p> <ul style="list-style-type: none">- the carrying amount of investments in the Company is higher than the market capitalisation of the Group at 31 December 2020; and- the impact of Covid-19 has had a negative impact on the performance of the US business. <p>Management performed an impairment assessment and estimated the recoverable amount using a value-in-use model. As a result of this assessment, an impairment of £155.9 million has been recognised in order to reduce the investment value to its value in use of £88.2 million. The significant assumptions in this assessment included the revenue growth rate and the discount rate.</p> <p>Additionally, the carrying value of non-financial assets in the US CGU as at 31 December 2020 is £19.9 million. Management identified indicators of impairment given the poor financial performance of the business in 2020 due to Covid-19.</p> <p>Management estimated the recoverable amount using a value-in-use model and concluded there was no impairment of the non-financial assets in the CGU. The significant assumptions in this assessment included the revenue growth rate and the discount 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.</p>	<p>Our audit procedures comprised the following:</p> <ul style="list-style-type: none">- We understood and evaluated the design and implementation of controls relating to the Group's impairment assessments.- We assessed the methodology used by management against the requirements of the financial reporting framework and tested the mathematical accuracy of the model.- We agreed the forecast financial information to budgets and forecasts approved by senior management and the Board, including the Medium Term Plan.- We evaluated the reliability of management's forecasting by comparing actual results with previous years' forecasts.- We compared the forecast growth rates with those achieved by the UK business when it was at a similar stage in its life cycle, those achieved by the US business in the past, as well as those of similar businesses in the US market.- We 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 and obtained corroborating evidence to support these assumptions.- We assessed the appropriateness of the discount rate assumption by using our valuation experts to derive an independent view on the rate.- We assessed the appropriateness of the long term growth rate by agreeing it to independent external evidence including OECD publications and analyst reports, as well as using our valuation experts to derive an independent view.- We performed sensitivity on the significant assumptions in the model. <p>Based on the above procedures performed, and evidence obtained, we considered the Directors' conclusion that the carrying value of the US subsidiary is impaired by £155.9 million to be reasonable. We also considered the conclusion that the remaining non-financial assets within the US CGU are not impaired to be reasonable.</p> <p>We evaluated the appropriateness of the related disclosures in note 2 (the critical accounting estimates and key sources of estimation uncertainty) to the Consolidated financial statements and note 1 (accounting policies) and note 5 (Investments in subsidiary undertakings) to the Company financial statements and considered these to be reasonable.</p>

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

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.

- 1) Audit approach to Funding Circle's operations: We designed our audit approach for the products and services that substantially make up Funding Circle's businesses in the UK, US and CE, such as platform lending, marketplace referrals and the origination of, and investment in, SME loan portfolios. The audit approach was designed by a partner and team members who are specialists in the relevant areas. The approach was provided to the US audit team who contributed to the Group audit.
- 2) Audit work for in scope components: Through our risk assessment and scoping we identified the US and UK as full scope components due to being financially significant. We considered the FCCE component as a limited scope entity for specific balances including exceptional items, the loan repurchase liability, other fee income and cash. We instructed our network firm in the US to perform a full scope audit of the US component. The Group audit team performed the audit work for the UK component and the specific work over FCCE balances. We assigned materiality levels to components reflecting the size of their operations. The performance materiality levels ranged from £1.125 million to £1.35 million. We determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. This included active and regular dialogue with the partner and team responsible for the audit of the US component, the issuance of instructions, reviewing their audit strategy and a review of the results of their work on significant risk and other areas and formal clearance meetings. Analytical review procedures were performed over FCCE, a non-significant component with material balances, to mitigate the risk of material misstatement.
- 3) Audit procedures undertaken at a Group level and on the Company: We ensured that appropriate further work was undertaken for the Group and Company. Certain account balances were audited centrally by the Group engagement team, including the impairment assessment of non-financial assets, and the Company's investment in subsidiary undertakings, the investments in associates, the valuation of SME loans, the consolidation of the Group's results, the preparation of the financial statements, certain disclosures within the Directors' remuneration report and taxation.
- 4) Using the work of others: We used the evidence provided by our valuation experts and specialists for our work on the significant assumptions used in the impairment assessment over non-financial assets and the Company's investment in the US subsidiary, the valuation of the SME loans and related liabilities recorded at fair value and the loan repurchase liability.

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:

	Financial statements – Group	Financial statements – Company
Overall materiality	£1,890,000 (2019: £2,500,000).	£3,400,000 (2019: £5,000,000).
How we determined it	5% of the average of loss before taxation for the previous three years, adjusted for exceptional items and fair value gains and losses.	1% of total assets.
Rationale for benchmark applied	We determined materiality by applying 5% to the average consolidated loss before taxation for the previous three years after adjusting for exceptional items and fair value gains and losses. We consider loss before taxation to be the most appropriate benchmark used in assessing the performance of the Group as the business is listed and profit orientated. Given the volatility in the underlying performance caused by challenging economic conditions resulting from Covid-19 through the course of 2020, we consider it appropriate to take an average of the results of the preceding three years. We believe that loss before taxation adjusted for exceptional items and fair value losses is an appropriate measure as it eliminates the impact of one-off non-recurring charges or those which significantly impact comparability.	We consider total assets to be the most appropriate benchmark to apply on the basis that the Company is a non-trading investment Company that holds investment in the Group's 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 £1,500,000 and £1,800,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,400,000 for the Group financial statements and £2,500,000 for the Company financial statements.

Report on the audit of the financial statements continued

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £95,000 (Group audit) (2019: £125,000) and £95,000 (Company audit) (2019: £250,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- evaluation of management's going concern assessment;
- understanding and evaluating management's financial forecasts and liquidity position over the going concern period including an evaluation of the continued impact of Covid-19 on the financial outlook of the Group;
- evaluation of the stress testing performed by management including their severe but plausible downside scenario;
- review of management's covenant compliance monitoring and the impact of the stress scenarios on the covenants;
- substantiation of financial resources available to the Group as at the balance sheet date including the unrestricted cash; and
- reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

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.

Independent auditors' report continued

to the members of Funding Circle Holdings plc

Report on the audit of the financial statements continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- the directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- the disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- the directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- the section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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/auditors-responsibilities. 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 obtained 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 six years, covering the years ended 31 December 2015 to 31 December 2020.

Nick Morrison (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

25 March 2021

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Note	31 December 2020 Before exceptional items £m	Exceptional items ¹ £m	31 December 2020 £m	31 December 2019 Before exceptional items £m	Exceptional items ¹ £m	31 December 2019 £m
Transaction fees		122.5	—	122.5	121.2	—	121.2
Servicing fees		30.2	—	30.2	30.4	—	30.4
Other fees		3.0	—	3.0	5.3	—	5.3
Fee income		155.7	—	155.7	156.9	—	156.9
Investment income		89.0	—	89.0	28.3	—	28.3
Investment expense		(22.7)	—	(22.7)	(7.9)	—	(7.9)
Total income		222.0	—	222.0	177.3	—	177.3
Fair value (losses)/gains		(118.3)	—	(118.3)	(9.9)	—	(9.9)
Net income	3	103.7	—	103.7	167.4	—	167.4
People costs	4, 6	(81.3)	(4.0)	(85.3)	(90.3)	—	(90.3)
Marketing costs	4	(46.8)	—	(46.8)	(66.5)	—	(66.5)
Depreciation, amortisation and impairment	4	(17.2)	(13.7)	(30.9)	(14.9)	(34.3)	(49.2)
Loan repurchase charge	4	(6.2)	—	(6.2)	(6.5)	—	(6.5)
Other costs	4	(39.8)	(1.0)	(40.8)	(39.6)	—	(39.6)
Operating expenses	4	(191.3)	(18.7)	(210.0)	(217.8)	(34.3)	(252.1)
Operating loss		(87.6)	(18.7)	(106.3)	(50.4)	(34.3)	(84.7)
Finance income	7	0.4	—	0.4	1.8	—	1.8
Finance costs	7	(1.4)	—	(1.4)	(1.2)	—	(1.2)
Share of net loss of associates	30	(0.8)	—	(0.8)	(0.1)	—	(0.1)
Loss before taxation		(89.4)	(18.7)	(108.1)	(49.9)	(34.3)	(84.2)
Income tax	8	(0.2)	—	(0.2)	(0.5)	—	(0.5)
Loss for the year		(89.6)	(18.7)	(108.3)	(50.4)	(34.3)	(84.7)
Other comprehensive income/(loss)							
Items that may be reclassified subsequently to profit and loss:							
Exchange differences on translation of foreign operations	20	1.7	—	1.7	(7.7)	—	(7.7)
Total comprehensive loss for the year		(87.9)	(18.7)	(106.6)	(58.1)	(34.3)	(92.4)
Total comprehensive loss attributable to:							
Owners of the Parent		(87.9)	(18.7)	(106.6)	(58.1)	(34.3)	(92.4)
Loss per share							
Basic and diluted loss per share	9	(25.8)p	(5.4)p	(31.2)p	(14.5)p	(9.9)p	(24.4)p

1. Exceptional items are detailed within note 5. During the year ended 31 December 2020 the presentation of exceptional items on the face of the consolidated statement of comprehensive income was amended to illustrate them in columnar fashion to aid users of the accounts' understanding of the impact of such items. The comparative year ended 31 December 2019 was re-presented accordingly for comparability.

All amounts relate to continuing activities.

The notes on pages 116 to 159 form part of these financial statements.

Consolidated balance sheet

as at 31 December 2020

	Note	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Goodwill	10	–	11.3
Intangible assets	11	24.4	23.6
Property, plant and equipment	12	28.7	39.0
Investment in associates	30	11.0	13.2
Investment in trusts	13	21.2	–
Investment in SME loans (other)	13	0.7	1.7
		86.0	88.8
Current assets			
Investment in SME loans (warehouse)	13	221.8	342.0
Investment in SME loans (securitised)	13	279.8	366.6
Investment in SME loans (other)	13	24.3	–
Trade and other receivables	14	67.0	33.6
Cash and cash equivalents	23	103.3	164.5
		696.2	906.7
Total assets		782.2	995.5
Current liabilities			
Trade and other payables	15	34.1	19.7
Bank borrowings	17	195.5	265.8
Bonds	17	294.3	348.7
Short-term provisions and other liabilities	16	8.7	3.1
Lease liabilities	12	7.3	8.5
		539.9	645.8
Non-current liabilities			
Long-term provisions and other liabilities	16	1.2	0.9
Lease liabilities	12	23.5	29.8
Total liabilities		564.6	676.5
Equity			
Share capital	18	0.3	0.3
Share premium account	19	292.6	292.3
Foreign exchange reserve	20	9.7	8.0
Share options reserve		13.6	11.9
(Accumulated losses)/retained earnings	21	(98.6)	6.5
Total equity		217.6	319.0
Total equity and liabilities		782.2	995.5

The financial statements on pages 112 to 159 were approved by the Board and authorised for issue on 25 March 2021. They were signed on behalf of the Board by:

Oliver White
Director

Company registration number 07123934

The notes on pages 116 to 159 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Retained earnings/ (accumulated losses) £m	Total equity £m
Balance at 1 January 2019		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
Loss for the year	21	—	—	—	—	(108.3)	(108.3)
Other comprehensive income							
Exchange differences on translation of foreign operations	20	—	—	1.7	—	—	1.7
Transactions with owners							
Transfer of share option costs	21	—	—	—	(3.2)	3.2	—
Issue of share capital	18, 19	—	0.3	—	—	—	0.3
Employee share schemes – value of employee services		—	—	—	4.9	—	4.9
Balance at 31 December 2020		0.3	292.6	9.7	13.6	(98.6)	217.6

The notes on pages 116 to 159 form part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	31 December 2020 £m	31 December 2019 £m
Net cash inflow/(outflow) from operating activities	23	33.1	(27.0)
Investing activities			
Purchase of intangible assets	11	(9.5)	(14.5)
Purchase of property, plant and equipment	12	(0.8)	(2.7)
Cash receipts from SME loans (curing)		–	4.7
Purchase of SME loans (other)	17	(25.0)	(1.5)
Purchase of SME loans (warehouse phase)	17	(286.9)	(381.2)
Purchase of SME loans (securitised)	17	–	(414.5)
Cash receipts from SME loans (warehouse phase)	17	146.9	32.5
Cash receipts from SME loans (securitised)	17	211.7	37.4
Proceeds from sale of investment bonds	17	4.0	–
Investment in trusts	17	(20.9)	–
Redemption/(investment) in associates	26, 30	1.9	(13.9)
Dividends from associates	26, 30	0.4	0.1
Interest received	7	0.4	1.8
Net cash inflow/(outflow) from investing activities		22.2	(751.8)
Financing activities			
Proceeds from bank borrowings	23	230.1	462.1
Repayment of bank borrowings	23	(299.1)	(192.7)
Proceeds from issuance of bonds	23	186.5	379.5
Proceeds from sale of bonds	23	–	–
Payment of bond liabilities	23	(226.1)	(30.1)
Proceeds from the exercise of share options		0.2	0.7
Payment of lease liabilities	23	(7.8)	(7.1)
Net cash (outflow)/inflow from financing activities		(116.2)	612.4
Net decrease in cash and cash equivalents		(60.9)	(166.4)
Cash and cash equivalents at the beginning of the year		164.5	333.0
Effect of foreign exchange rate changes		(0.3)	(2.1)
Cash and cash equivalents at the end of the year	23	103.3	164.5

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

The notes on pages 116 to 159 form part of these financial statements.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2020

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 172. The consolidated financial statements of the Group for the year ended 31 December 2020 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 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 at least 12 months from the date of approval of the financial statements).

The Group made a total comprehensive loss of £106.6 million during the year ended 31 December 2020 (2019: loss of £92.4 million). As at 31 December 2020, the Group had net assets of £217.6 million (2019: £319.0 million). This includes £103.3 million of cash and cash equivalents (2019: £164.5 million) of which £38.9 million (2019: £14.2 million) is held within the warehouse and securitisation vehicles. In February 2021 the Group received a net £27.0 million of cash in relation to fees owed to the Group at 31 December 2020. Additionally, within the net assets the Group holds £118.3 million of invested capital some of which is capable of being monetised if liquidity needs arise.

The Group has prepared detailed cash flow forecasts for the next 15 months and has updated the going concern assessment to factor in the potential impact of Covid-19 and related economic stress.

The base case scenario assumes:

- non-government scheme lending and the new government guarantee scheme in the UK resume in Q2 2021;
- there is no further extension to the PPP government programme in the US beyond March 2021; and
- costs and headcount remain relatively flat with marketing at c.30% of operating income.

Management prepared a severe but plausible downside scenario in which:

- there is a further deterioration in the global economy and there is a dislocation period of two months between current government schemes ending and non-government schemes/new schemes commencing; and
- a downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher fair value losses and lower cash flows to the subordinate tranches of investments it owns.

In this downside scenario sufficient cash is forecast to be available to meet liabilities as they fall due without the requirement to take significant mitigating actions, restructuring or monetising investments.

The Group does not currently rely on committed or uncommitted borrowing facilities with the exception of borrowings, which are held in bankruptcy remote SPVs, to fund warehouse SME loan purchases, and does not have undrawn committed borrowing facilities available to the wider Group.

Management has reviewed financial covenants the Group must adhere to in relation to its servicing agreements. These are with institutional investors and debt facilities associated with borrowings used to fund SME loan originations in warehouses, for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios. In the downside scenario the risk of covenant breach is considered remote.

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 pages 48 and 49.

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 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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").

1. Accounting policies continued

Basis of preparation continued

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 2020:

i) Covid-19

As a result of the global Covid-19 pandemic and the related uncertainty and restrictions required in the geographies that Funding Circle operates within, lending was proactively brought down in the latter half of March 2020 and continued to be low into April. SME government guarantee programmes were introduced by the UK and US Governments, and Funding Circle's subsequent accreditations, resulted in originations restarting with new borrower products as detailed below and the temporary cessation of non-government-guaranteed lending. The Group's exposure to ABS products resulted in significant fair value losses as detailed below. Additionally, forbearance measures were introduced to support small business borrowers.

ii) The UK Government's Coronavirus Business Interruption Loan Scheme ("CBILS") and Bounce Back Loan Scheme ("BBLs") funding

During the year, due to the Covid-19 crisis, Funding Circle became an accredited lender under CBILS and BBLs. Funding Circle is required by the BBB to co-invest in loans originated under CBILS. The loans are beneficially owned by investors under trust structures in which Funding Circle retains a small stake in CBILS trusts.

The Group does not consolidate the trusts or the loans held within the trusts, recognising its interest in the loans instead as an investment in trust assets on the balance sheet. This investment is held at FVTPL. The Group earns transaction and service fee income from originating and servicing CBILS and service fee income for servicing BBLs loans.

iii) The US Government's Paycheck Protection Programme ("PPP") loan funding

During the year, due to the Covid-19 crisis, the US business was approved to originate loans under the US Government's PPP scheme. Funding Circle funded PPP loans via its lending platform by partnering with financial institutions and institutional investors, for which it earns a referral fee or origination fee. Additionally Funding Circle was accredited to draw down on the US Government's Federal PPP lending facility. As a result the Group holds £24.3 million of PPP loans on balance sheet included within Investment in SME loans (other) with corresponding draw down on the SBA facility of £24.3 million included within Bank borrowings. These loans are recognised initially at fair value and are subsequently held at amortised cost as the business model under which the assets are held is to collect contractual cash flows. Once a loan is forgiven, the loan and related borrowing are extinguished.

iv) Asset-backed securities ("ABS")

The Group continued its bond programmes which commenced in the prior year in the UK and US, investing in SME loans during the "warehousing phase" of the programme using both its own cash and amounts borrowed under credit facilities with lending institutions. An additional credit facility was utilised and warehouse vehicle created in the US in the year to 31 December 2020. The loans are held within bankruptcy remote special purpose warehouse vehicles which are consolidated on 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. During the year to 31 December 2020 a further £214.2 million of SME loans have been sold to SPVs (31 December 2019: £292.2 million).

The bonds are split into senior rated bonds (referred to as "rated") and junior unrated bonds (referred to as "unrated") and Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued.

Additionally, once loans are securitised, Funding Circle has temporarily held the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn greatest returns, but they also absorb losses first. As at 31 December 2020, Funding Circle held horizontals in three securitisations which were securitised in H2 2019 (UK and US) and H1 2020 (US). The timing of the pandemic meant that it was not feasible to dispose of all horizontal tranches in 2020.

In July 2020 the Group sold 95% of its investment in one of the subordinated unrated tranches in the UK securitisation vehicle, for £4.0 million. The sale price was considered to represent the fair value of the bond at the time of sale. The sale did not result in deconsolidation of the securitisation vehicle, as the variability in cash flows continues to be concentrated in the Group's remaining holding of unrated tranches of the vehicle. The portion of the bonds sold were subsequently held by a third party and no longer eliminated on consolidation resulting in the recognition of an additional bond liability at FVTPL on the Group's balance sheet.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

1. Accounting policies continued**Changes in accounting policy and disclosures**

The Group has adopted the following new and amended IFRSs and interpretations from 1 January 2020 on a full retrospective basis.

Standard/interpretation	Content	Applicable for financial years beginning on/after
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
Amendments to IFRS 3 Business Combinations, definition of a business	Business combinations	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
Amendments to IFRS 7, IFRS 9 and IAS 39 – interest rate benchmark reform – Phase 1	Reliefs relating to interest rate benchmark reforms	1 January 2020

The 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 2020 reporting years, have not yet been endorsed pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have not been early adopted by the Group as follows:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 7, IFRS 9 and IAS 39 – interest rate benchmark reform – Phase 2	Reliefs relating to interest rate benchmark reforms	1 January 2021
Amendments to IFRS 16 – Covid-19 related rent concessions	Leases	1 June 2020

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.

Summary of new and amended accounting policies**Investment in trusts**

The Group holds a small beneficial ownership in trusts set up to fund CBILS loans with the remaining majority of the beneficial ownership held by institutional investors. Whilst SME loans are originated by a Group subsidiary, Funding Circle Focal Point Lending Ltd, which retains legal title to the loans, it holds this legal title of trust on behalf of the majority investors who substantially retain the economic benefits the CBILS loans generate and therefore the trusts and the assets held within, including the SME loans, are not consolidated.

The Group assesses whether it controls the trust structure under the criteria of IFRS 10. Control is determined to exist if the Group has the power to direct the activities of entities and structures and uses this control to obtain a variable return. As the Group's holding is pari passu, the Group is not exposed to the majority of the variability in the cash flows of the trust, and it is not considered to control the trust structures, so they are not consolidated by the Group.

Investments in trusts are classified at fair value through profit and loss. 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.

The Group recognises transaction fee income on origination of loans within the trust and service fee income on the assets within the trust, eliminating its proportional ownership share of the service fees. A scheme lender fee is charged in relation to the origination of CBILS loans and investment income is recognised in relation to returns on the investment.

1. Accounting policies continued

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.

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.

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; acquisitions and disposals; major restructuring programmes; significant goodwill or other asset impairments; and other particularly significant or unusual items (see note 5).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

1. Accounting policies continued

Income recognition

Fee income 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 income when (or as) the entity satisfies its performance obligation.

Fee income earned for the arrangement of loans is classified as transaction fees and is a cost of the borrower except for government-guaranteed loans which are a cost to the government. 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 (or subsequently invoiced in the case of government-guaranteed loans) and recognised at that point as the Group has the right to consideration and the performance obligation has been satisfied.

Fee income earned from referrals to partner institutions is classified as transaction fees and is a cost to the partner institution. There are contracts in place with partner institutions with clearly identifiable terms. The performance obligation in the contract is considered to be the referral by the Group and subsequent funding of the referred loan by the partner institution and the transaction price is clearly stated in the referral agreement. Fees are recognised once the referred loan has been funded by the partner institution and accepted by the referred borrower. At this point the performance obligation has been met and there are no significant clawback provisions.

Fee income earned from servicing third party loans is classified as servicing fees and is a cost of the investor, except in the case of government schemes that permit a service fee such as CBILS, where the government bears the cost in the first year. 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 servicing the loans and allocating repayments of the loan parts to the respective lenders. The transaction price is allocated as a percentage of the outstanding principal balance, representing the outstanding performance obligation. Fees are recognised on a monthly basis upon repayment of loan parts. Due to the conditions of the loans, there are no partially completed contracts at the balance sheet date and no advance payments from customers.

Other fees include excess premium earned from arrangements to buy back defaulted loans from certain institutional investors and income earned on bought back loans. These are recognised as services are performed on an accruals basis.

Net income includes the following elements under which the recognition criteria of IFRS 9 and not IFRS 15 are applied:

Investment income includes:

- interest income from SME loans and investments in trusts that the Group holds on balance sheet.

Investment expense includes:

- interest payable on funds borrowed to finance the acquisition of underlying loan investments;
- interest payable on bond liabilities held on balance sheet;
- amortisation of costs associated with the issuing of bonds and the credit facility; and
- gains/losses from changes in fair value of interest hedging instruments.

Fair value gains/losses includes:

- gains/losses from changes in the fair value of financial assets and liabilities held on balance sheet.

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.

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.

1. Accounting policies continued

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, net income, 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.

Dividends

Dividends are recognised when they become legally payable, in accordance with the Companies Act 2006.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

1. Accounting policies continued

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 ("CGUs") expected to benefit from the synergies of the combination. CGUs 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 CGU 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 non-financial 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 2020.

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.

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.

1. Accounting policies continued

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 CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) 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 CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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.

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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

1. Accounting policies continued

Leases continued

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.

Consolidation of special purpose vehicles ("SPVs")

Subsidiaries are those entities, including structured vehicles, 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 SPVs 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.

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 an indication that the investment in the associate is impaired. If there is such an indication, 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.

1. Accounting policies continued

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; and
- financial assets that do not meet the criteria to be amortised cost or FVTOCI 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 FVTPL 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.

In certain circumstances the Group buys back loans from investors. The nature of the buy-back is such that these are not treated as an investment in loans categorised below and the loans are included within other receivables measured at amortised cost less provision for impairment.

With the exception of investment in SME loans under cure period, investment in trusts, investment in SME loans (warehouse) and investment in SME loans (securitised), all financial assets are held to collect contractual cash flows.

Under certain circumstances the Group holds investments in SME loans. The four types of investment in SME loans 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 consolidates 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 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.

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 would deconsolidate the securitisation SPV. The Group would subsequently apply the derecognition rules of IFRS 9 to the investment in SME loans. Cash on the sale of the Group's investment in the residual is treated as an investing activity.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

1. Accounting policies continued

Financial instruments continued

Financial assets continued

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). Additionally the Group has originated PPP loans using the SBA's PPPLF facility, both of which are held on balance sheet.

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. PPP loans are fully guaranteed by the SBA.

Other financial assets

Financial assets recognised in the balance sheet as trade and other receivables are classified as amortised cost. They are recognised initially 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.

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 income 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.

1. Accounting policies continued

Financial instruments continued

Financial assets continued

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 measured at fair value with gains and losses recognised in profit or loss. See note 17 for details of interest rate risk.

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.

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 repurchases

Loan repurchase 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 repurchase 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 and Share Incentive Plan Trust

The Company has established an offshore Employee Benefit Trust ("EBT") and an onshore Share Incentive Plan ("SIP") Trust.

The EBT and SIP provide for the issue of shares to Group employees principally under share option schemes and SIP respectively. The Group has control of the EBT and SIP Trust and therefore consolidates the Trusts 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. The costs are transferred to retained earnings when options are exercised.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

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.

The significant judgements and 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 2019.

Critical judgements

Consolidation and deconsolidation of special purpose vehicles ("SPVs") (Note 17)

As part of its asset-backed securitisation programmes, the Group has established warehouse and securitisation SPVs. Judgement is required in determining who is most exposed to the variability of returns and who has the ability to affect those returns and therefore who should consolidate these vehicles and subsequently deconsolidate them. Where the Group has a significant interest in the junior tranches of the securitisation vehicles or the subordinated debt in the warehouses, the Group is deemed to be exposed to the majority of the variability of the returns of those vehicles and controls them, and therefore consolidates them. Where this interest is reduced, the Group considers whether the vehicles should be deconsolidated. During the year a tranche of unrated bonds was sold, reducing the Group's holding in a UK SPV. However, the Group retained a significant holding of the subordinate unrated tranches of the vehicle and was considered to be exposed to the majority of the variability of the returns and the vehicle was not deconsolidated.

Loans originated through the platform

The Group originates SME loans through its platform which are funded primarily by banks, asset managers, other institutional investors, funds, national entities, retail investors or by usage of its own capital. Judgement is required to determine whether these loans should be recognised on the Group's balance sheet. Where the Group, its subsidiaries or SPVs which it consolidates have legal and beneficial ownership to the title of those SME loans, they are recognised on the Group's balance sheet. Where this is not the case, the loans are not recognised at the point of origination.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that the Directors have identified 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 non-financial assets (notes 10, 11 and 12)

Non-financial assets (primarily goodwill, intangible assets and property, plant and equipment) are held within the Group within cash-generating units ("CGUs") which are expected to benefit from the assets. The Group has three CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries, Funding Circle Ltd ("FCUK") and its subsidiaries and the German and Dutch businesses (Funding Circle Continental Europe or "FCCE"). These assets are assessed annually for impairment or when indicators of impairment are identified. Following the impact of Covid-19 and a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group undertook an impairment review of non-financial assets in each applicable CGU.

The impairment test involved comparing the carrying value of the non-financial assets held for use to their recoverable amount for each CGU. The recoverable amount represents the higher of the CGU's fair value net of selling costs and its value in use, which were determined using discounted cash flow methodology. In undertaking the impairment assessment it was noted that the recoverable amount of FCUK was not sensitive to estimation uncertainty, nor was FCCE as the non-financial assets were previously impaired for the year ended 31 December 2019.

The review identified impairment to the goodwill in FCUSA as the recoverable amount calculated was below the carrying amount and the goodwill was fully impaired by £12.0 million. IAS 36 allocates impairment losses first to goodwill followed by other non-financial assets; however, it prohibits the reversal of goodwill impairment. As a result the impairment assessment is not sensitive to a higher estimation of the recoverable amount; but a lower estimated recoverable amount could lead to impairment of intangible assets within the CGU which are held at a carrying value of £8.7 million and property, plant and equipment totalling £11.2 million (excluding certain right-of-use assets identified as separate CGUs).

The Group prepared a five-year forecast for the FCUSA CGU for which the majority of the sensitivity to estimation uncertainty 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 a reduction in the recoverable amount for each key assumption:

- fifth-year income growth of 27.0%. A 480 bps reduction in projected fifth-year income growth rate with no cost reduction would decrease the recoverable amount by £16.2 million to be equal to the carrying value;
- fifth-year cost growth of 16.0%. A 520 bps increase in projected fifth-year cost growth rate with no income increase would decrease the recoverable amount by £16.2 million to be equal to the carrying value;
- pre-tax discount rate of 13.0%. A 270 bps increase in discount rate would decrease the recoverable amount by £16.2 million to be equal to the carrying value; and
- income beyond the five-year period extrapolated using an estimated growth rate of 1.5%. A reduction in the growth rate to 0.0% would reduce the recoverable amount by £6.9 million.

2. Critical accounting judgements and key sources of estimation uncertainty continued

Key sources of estimation uncertainty continued

Estimated impairment of non-financial assets (notes 10, 11 and 12) continued

During the prior year ended 31 December 2019, 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 previously 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.

Fair value of financial instruments (note 17)

At 31 December 2020, the carrying value of the Group's financial instrument assets held at fair value was £547.9 million (31 December 2019: £754.8 million) and the carrying value of financial liabilities carried at fair value was £7.8 million (2019: £20.0 million).

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 and default rates.

Sensitivities to the default rates and discount rates are illustrated below.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (warehouse)	221.8	Lifetime cumulative default rate as % of original	US: 18.1% and 21.6% ¹ UK: 15.4%	A change in the lifetime cumulative default rate would have the following impact: US: +/-300 bps would decrease/increase fair value by £3.8 million. UK: +/-330 bps would decrease/increase fair value by £7.1 million.
Investment in SME loans (securitised)	279.8	Lifetime cumulative default rate as % of original	US: 21.9% and 24.0% ¹ UK: 16.8%	A change in the lifetime cumulative default rate would have the following impact: US SPV1 ¹ : +/-140 bps would decrease/increase fair value by £2.0 million. US SPV2 ¹ : +/-200 bps would decrease/increase fair value by £4.0 million. UK: +/-300 bps would decrease/increase fair value by £2.6 million.
Bonds (unrated)	(7.8)	Lifetime cumulative default rate of associated assets	16.8%	A change in the lifetime cumulative default rate by +/-300 bps would decrease/increase fair value by £2.3 million and £(0.9) million respectively.

1. Two cumulative default rates are presented for the US representing the portfolios in each of the two respective warehouses and two respective securitisation vehicles. Separate sensitivities to default rates for the US securitisation vehicles represent the respective seasoning of the loans and the different reasonably possible range of outcomes.

The above sensitivities represent management's estimate of the reasonably possible range of outcomes and as a result the fair value of the assets and liabilities measured at fair value could materially diverge from management's estimate.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (warehouse)	221.8	Discount rate	US: 7.8% UK: 7.8%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £3.1 million.
Investment in SME loans (securitised)	279.8	Discount rate	US: 7.8% UK: 7.8%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £3.7 million.
Bonds (unrated)	(7.8)	Discount rate	21.7%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £0.2 million.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

2. Critical accounting judgements and key sources of estimation uncertainty continued**Key sources of estimation uncertainty continued****Fair value of financial instruments (note 17) continued**

It is considered that the range of reasonably possible outcomes in relation to the discount rate used could be +/-100 bps and as a result the fair value of the assets could materially diverge from management's estimate.

As the discount rate is risk adjusted, it should be noted that the sensitivities to discount rate and to lifetime cumulative default rate contain a level of overlap regarding credit risk. The sensitivity in expected lifetime cumulative defaults should not also be applied to the sensitivity of the credit risk element of the risk-adjusted discount rate and the sensitivities are most meaningful viewed independently of each other.

Loan repurchase liability (note 16)

In certain historical circumstances, in less mature markets, predominantly Germany and the Netherlands, 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.

In order to quantify the ECL, IFRS 9 is followed. 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 in each market together with the impact of loan defaults. It is estimated that in both the European markets defaults will have already peaked in H2 2020 and will de-stress gradually afterwards, with Germany expected to fair more favourably than the Netherlands as a result of the government stimulus programme. The most significant estimation is with default rates on performing loans. For the year ended 31 December 2020 the weighted average lifetime default rate is estimated at 20.5% under stress assumptions (2019: 12.9% without Covid-19 stress). If the weighted average default rate estimate were to change by +/-240 bps, the liability would change by £1.2 million for the year ended 31 December 2020 (2019: £1.5 million). It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-240 bps and as a result it is possible that the liability in future 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 previously 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 previously consisted 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 businesses 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.

During the year ended 31 December 2020 organisational changes led to greater ownership of costs being managed within geographies. As a result the way the operating segment performance is reported to and reviewed by the GLT was modified to allocate product development, corporate costs, depreciation and amortisation, share-based payment charges and exceptional items across the three geographical segments. The comparatives for the year ended 31 December 2019 have been restated to reflect the revised segmental presentation.

Net income/(loss)

	31 December 2020				31 December 2019 (restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	152.9	63.0	6.1	222.0	111.6	52.4	13.3	177.3
Fair value (losses)/gains	(43.8)	(74.5)	—	(118.3)	(3.1)	(6.8)	—	(9.9)
Net income/(loss)	109.1	(11.5)	6.1	103.7	108.5	45.6	13.3	167.4

3. Segmental information continued

Segment profit

	31 December 2020				31 December 2019 (restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Segment adjusted EBITDA	30.2	(52.8)	(6.3)	(28.9)	34.0	(10.3)	(12.5)	11.2
Product development	(14.7)	(6.5)	(1.1)	(22.3)	(15.1)	(8.3)	(3.0)	(26.4)
Corporate costs	(9.0)	(3.1)	(0.5)	(12.6)	(7.9)	(3.4)	(1.0)	(12.3)
Adjusted EBITDA	6.5	(62.4)	(7.9)	(63.8)	11.0	(22.0)	(16.5)	(27.5)
Depreciation and amortisation	(9.4)	(6.5)	(1.3)	(17.2)	(8.0)	(5.2)	(1.7)	(14.9)
Share-based payments and social security costs	(5.0)	(1.2)	(0.4)	(6.6)	(5.0)	(2.7)	(0.3)	(8.0)
Exceptional items (note 5)	–	(13.5)	(5.2)	(18.7)	–	–	(34.3)	(34.3)
Operating loss	(7.9)	(83.6)	(14.8)	(106.3)	(2.0)	(29.9)	(52.8)	(84.7)

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 2020 £m	31 December 2019 £m
Transaction fees	122.5	121.2
Servicing fees	30.2	30.4
Other fees	3.0	5.3
Fee income	155.7	156.9
Investment income	89.0	28.3
Investment expense	(22.7)	(7.9)
Total income	222.0	177.3
Fair value (losses)/gains	(118.3)	(9.9)
Net income	103.7	167.4

4. Operating expenses

	31 December 2020			31 December 2019		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Depreciation	9.0	–	9.0	7.8	–	7.8
Amortisation	8.2	–	8.2	7.1	–	7.1
Rental income and other recharges	(1.1)	–	(1.1)	–	–	–
Operating lease rentals:						
– Other assets	–	–	–	0.1	–	0.1
– Land and buildings	0.1	–	0.1	0.1	–	0.1
Employment costs (including contractors)	81.3	4.0	85.3	90.3	–	90.3
Marketing costs (excluding employment costs)	46.8	–	46.8	66.5	–	66.5
Data and technology	10.9	–	10.9	9.4	–	9.4
Loan repurchase charge	6.2	–	6.2	6.5	–	6.5
Impairment of goodwill	–	12.0	12.0	–	29.0	29.0
Impairment of intangible and tangible assets	–	1.7	1.7	–	5.3	5.3
Other expenses	29.9	1.0	30.9	30.0	–	30.0
Total operating expenses	191.3	18.7	210.0	217.8	34.3	252.1

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

4. Operating expenses continued**Auditors' remuneration**

	31 December 2020 £m	31 December 2019 £m
Audit fees		
– Fees payable to the Company's auditors for the audit of the Parent Company and consolidated financial statements	0.6	0.3
– Fees payable to the Company's auditors and its associates for the statutory audit of the financial statements of subsidiaries of the Company	0.1	0.2
Total audit fees	0.7	0.5
Non-audit service fees		
– Audit-related assurance services	0.2	0.1
– Other non-audit services	0.1	0.2
Total assurance-related fees	0.3	0.3

5. Exceptional items

	31 December 2020 £m	31 December 2019 £m
Restructuring costs	6.0	–
Share-based payment credit relating to restructuring	(1.0)	–
Impairment of goodwill (note 10)	12.0	29.0
Impairment of non-financial assets (notes 11 and 12)	1.7	5.3
Total	18.7	34.3

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.

As announced in March 2020, the Group restructured the German and Dutch (Developing Markets) businesses to focus on referring loans it originates to local lenders. This restructuring has resulted in one-off costs totalling £4.6 million comprising redundancy costs of £4.0 million, a related share-based payment credit of £(0.4) million and other costs of £1.0 million. An additional impairment on right-of-use assets was incurred of £0.6 million. Cash payments associated with these items totalled £3.8 million to 31 December 2020. See note 16 for movement in associated provisions and note 23 for cash flow.

As announced in July 2020, the Group reorganised the US business, centralising the US technology team in the UK and moving sales and marketing to Denver, resulting in a net reduction of c.85 roles. This restructuring has resulted in one-off costs totalling £0.4 million, comprising redundancy costs of £1.0 million and related share-based payment credits of £(0.6) million. An additional impairment on the right-of-use assets was recognised of £1.1 million. Cash payments associated with these items totalled £1.1 million to 31 December 2020. See note 16 for movement in associated provisions and note 23 for cash flow.

Following a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group has undertaken a goodwill impairment review as a result of which it was identified that goodwill in relation to the Funding Circle USA business was carried at a value higher than the CGU's recoverable amount driven by a reduction in the future discounted cash flows of the CGU. As a result, an impairment was recognised of £12.0 million. There was no cash movement in relation to the impairment.

In 2019, 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 CGU. 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 CGU and an impairment of £0.7 million and £4.6 million respectively was recognised. There was no cash movement in relation to the impairment.

6. Employees

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

	2020 Number	2019 Number
UK	601	599
US	240	292
Developing Markets	70	164
	911	1,055

In addition to the employees above, the average monthly number of contractors during the year was 91 (2019: 110).

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

	31 December 2020			31 December 2019
	Before exceptional items £m	Exceptional items £m	Total £m	Total £m
Wages and salaries	70.8	4.0	74.8	80.1
Social security costs	6.9	1.0	7.9	7.8
Pension costs	1.2	—	1.2	1.0
Share-based payments	6.6	(1.0)	5.6	8.0
	85.5	4.0	89.5	96.9
Contractor costs	5.2	—	5.2	7.7
Less: capitalised development costs	(9.4)	—	(9.4)	(14.3)
Employment costs net of capitalised development costs	81.3	4.0	85.3	90.3

7. Net finance (costs)/income

	31 December 2020 £m	31 December 2019 £m
Interest receivable	0.4	1.8
Total finance income	0.4	1.8
Interest on lease liabilities	(1.4)	(1.2)
Total finance costs	(1.4)	(1.2)
Net finance (costs)/income	(1.0)	0.6

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% (2019: 19%).

	31 December 2020 £m	31 December 2019 £m
Current tax		
UK corporation tax	0.2	0.5
Total current tax	0.2	0.5
Total tax charge	0.2	0.5

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 2020. In the prior year, the tax charge represents the amount of tax deducted from the RDEC receivable for the years 2017 to 2019.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

8. Income tax continued

The Group charge 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 for the year

	31 December 2020 £m	31 December 2019 £m
Loss before taxation	(108.1)	(84.2)
Taxation on loss at 19% (2019: 19%)	(20.5)	(16.0)
Effects of:		
Research and development	0.2	0.5
Effect of foreign tax rates	(7.7)	(2.4)
Non-taxable/non-deductible expenses	(0.1)	0.8
Temporary differences not recognised	23.2	10.7
Impairment charge and other exceptional items	5.1	6.9
Tax charge	0.2	0.5

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 (30.0%) and the Netherlands (25%). The effective tax rate for the year was (0.2%) (2019: (0.6%)).

The statutory UK corporation tax rate is currently 19%, and remained at 19% from 1 April 2020 following it being substantively enacted on 17 March 2020. This reverses the previously enacted reduction to 17%. 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 of 21% 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 2020 £m	31 December 2019 £m
Property, plant and equipment	1.3	(1.9)
Carry forward losses	88.6	61.5
Deferred stock options	2.1	1.0
US R&D credit	0.5	0.4
Other	1.1	—
Unrecognised deferred tax asset	93.6	61.0

The Group has unrelieved tax losses of £342.8 million (2019: £248.0 million) that are available for offset against future taxable profits. The Group has not recognised a deferred tax asset in respect of these losses as there is not sufficient 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.

The UK Government announced on 3 March 2021 that the rate of corporation tax will be increased to 25% from 1 April 2023. This measure will be legislated in the Finance Bill 2021 published on 11 March 2021. As such, it is not substantively enacted for the accounting year ended 31 December 2020 and deferred tax has been recognised at 19%. Although not substantively enacted, the effect of the announcement would increase its unrecognised deferred tax asset as at 31 December 2020 by £5.3 million to £98.9 million (property, plant and equipment £(0.4) million; carry forward losses: £5.0 million; deferred stock options £0.6 million; others £0.1 million).

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 2020 £m	31 December 2019 £m
Loss for the year	(108.3)	(84.7)
Weighted average number of ordinary shares in issue (million)	347.0	347.6
Basic and diluted loss per share	(31.2)p	(24.4)p
Loss for the year before exceptional items	(89.6)	(50.4)
Weighted average number of ordinary shares in issue (million)	347.0	347.6
Basic and diluted loss per share before exceptional items	(25.8)p	(14.5)p

10. Goodwill

	Total £m
Cost and carrying amount	
At 1 January 2019	42.3
Impairment charge (note 5)	(29.0)
Exchange differences	(2.0)
At 31 December 2019	11.3
At 1 January 2020	11.3
Impairment charge (note 5)	(12.0)
Exchange differences	0.7
At 31 December 2020	—

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Following the impact of Covid-19 and a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group undertook an interim goodwill impairment review for all CGUs at 30 June 2020.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. At the previous balance sheet date, the Group had one CGU to which remaining goodwill was attached, being Funding Circle USA ("FCUSA") and its subsidiaries.

	31 December 2020 £m	31 December 2019 £m
FCUSA	—	11.3
FCCE	—	—
Total	—	11.3

The impairment test involved comparing the carrying value of the non-financial assets held for use to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less cost to sell and its value in use. The recoverable amount was determined using fair value less cost to sell calculations utilising discounted cash flows.

Further details of the impairment assessment are detailed within note 2. The review identified impairment to the goodwill in FCUSA as the recoverable amount calculated was below the carrying amount. The cumulative amount of impairment losses in relation to goodwill recognised in the year was £12.0 million (31 December 2019: £29.0 million in FCCE).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

11. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Cost				
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
At 1 January 2020	47.3	1.0	1.1	49.4
Exchange differences	(0.5)	–	–	(0.5)
Additions	9.4	0.1	–	9.5
Reclassification	–	–	–	–
Disposals	(10.7)	(0.3)	–	(11.0)
At 31 December 2020	45.5	0.8	1.1	47.4
Accumulated amortisation				
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
At 1 January 2020	24.0	0.8	1.0	25.8
Exchange differences	–	–	–	–
Charge for the year	8.0	0.2	–	8.2
Impairment	–	–	–	–
Disposals	(10.7)	(0.3)	–	(11.0)
At 31 December 2020	21.3	0.7	1.0	23.0
Carrying amount				
At 31 December 2020	24.2	0.1	0.1	24.4
At 31 December 2019	23.3	0.2	0.1	23.6

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

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 2020 £m	31 December 2019 £m
Property, plant and equipment (owned)	3.9	5.1
Right-of-use assets	24.8	33.9
	28.7	39.0

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 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
At 1 January 2020	5.8	4.8	3.0	49.4	63.0
Disposals	(0.1)	(1.6)	(0.2)	(2.2)	(4.1)
Additions	0.4	0.4	–	–	0.8
Exchange differences	–	–	–	(0.4)	(0.4)
At 31 December 2020	6.1	3.6	2.8	46.8	59.3
Accumulated depreciation					
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
At 1 January 2020	3.0	4.0	1.5	15.5	24.0
Disposals	(0.1)	(1.6)	(0.2)	(2.2)	(4.1)
Charge for the year	0.8	0.8	0.4	7.0	9.0
Impairment (exceptional)	–	–	–	1.7	1.7
Exchange differences	–	–	–	–	–
At 31 December 2020	3.7	3.2	1.7	22.0	30.6
Carrying amount					
At 31 December 2020	2.4	0.4	1.1	24.8	28.7
At 31 December 2019	2.8	0.8	1.5	33.9	39.0

During the year right-of-use assets were identified as part of the FCCE and FCUS restructures, which were considered to be individual CGUs for which the recoverable amount was considered to be the future potential sub-let value. The estimated discounted cash flows from sub-let income were compared to the carrying value of the asset and an impairment of £1.7 million was recognised. See note 5 for related exceptional items.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

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

Amounts recognised on the balance sheet were as follows:

	31 December 2020 £m	31 December 2019 £m
Current	7.3	8.5
Non-current	23.5	29.8
Total	30.8	38.3

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

	31 December 2020 £m	31 December 2019 £m
Depreciation charge of right-of-use assets (property)	7.0	5.5
Interest expense (included in finance costs)	1.4	1.2
Expense relating to short-term leases and leases of low-value assets	0.1	0.2

The total cash outflow for leases (excluding short-term and low-value leases) in 2020 was £7.8 million (2019: £7.1 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 2020 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 (2019: £nil).

13. Investment in SME loans

	31 December 2020 £m	31 December 2019 £m
Non-current		
Investment in SME loans (other) – amortised cost	0.7	1.7
Investment in trusts – FVTPL	21.2	–
Total non-current	21.9	1.7
Current		
Investment in SME loans (other) – amortised cost	24.3	–
Investment in SME loans (warehouse) – FVTPL	221.8	342.0
Investment in SME loans (securitised) – FVTPL	279.8	366.6
Total current	525.9	708.6
Total	547.8	710.3

14. Trade and other receivables

	31 December 2020 £m	31 December 2019 £m
Trade receivables	1.6	0.9
Other receivables ¹	15.5	17.3
Prepayments	3.6	4.2
Accrued income ²	43.7	7.3
Rent and other deposits	2.6	3.9
	67.0	33.6

1. Includes £7.5 million (2019: £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.

2. Includes £36.2 million (2019: £nil) in relation to transaction fees receivable on CBILS originations. Accrued income outstanding at the start of the year was subsequently collected.

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. Other receivables includes amounts related to bought back loans, some of which are past due or impaired.

Included in rent and other deposits are £1.9 million of rental deposits (2019: £3.3 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 2020 £m	31 December 2019 £m
Trade payables	2.1	3.2
Other taxes and social security costs	3.7	3.1
Other creditors	5.6	1.7
Accruals	22.7	11.7
	34.1	19.7

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

16. Provisions and other liabilities

	Dilapidation £m	Loan repurchase £m	Restructuring ¹ £m	Other ¹ £m	Total £m
At 1 January 2019	0.8	3.1	—	0.7	4.6
Reclassification	—	0.5	—	(0.5)	—
Additional provision/liability	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
Reclassification	—	—	—	—	—
Exchange differences	—	0.2	—	(0.1)	0.1
Additional provision/liability	—	6.2	6.0	3.2	15.4
Amount utilised	—	(4.1)	(4.9)	(0.6)	(9.6)
At 31 December 2020	0.9	5.2	1.1	2.7	9.9

1. Restructuring provision is in relation to reorganisation of the USA, German and Dutch businesses; see note 5. Other provisions includes provisions for operational buy backs.

	31 December 2020 £m	31 December 2019 £m
Current	8.7	3.1
Non-current	1.2	0.9
	9.9	4.0

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.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

16. Provisions and other liabilities continued**Loan repurchase liability**

In certain historical 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. 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 income.

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

The liability 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, which reflects the point at which the loan is considered to be credit-impaired. Under the loan repurchase contracts, this was the point at which there is an obligation for the Group to make a payment under the contract or buy back the loan. However, while the buyback agreement is contractually defined as 90 days past due, due to the impact of Covid-19, a consent letter was signed with the institutional investors in April 2020 to accommodate loans on forbearance plans whereby loans on such plans will be repurchased at 180 days past due. However, the definition of default for the purposes of expected credit losses remains 90 days past due and the buyback may lag the default definition applied.

If the loan is bought back by the Group, at the point of buy back, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the reserve is therefore based on lifetime ECLs.

The Group bands each loan investment using an internal risk rating and assesses credit losses on a collective basis.

	Performing: 12-month ECL £m	Underperforming: lifetime ECL £m	Non-performing: lifetime ECL £m	Total £m
At 1 January 2019	2.1	0.8	0.2	3.1
Liability against new loans originated	2.8	—	—	2.8
Liability 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
Liability against new loans originated	—	—	—	—
Exchange differences	0.1	0.1	—	0.2
Liability against loans transferred from performing	(0.3)	0.5	4.9	5.1
Amounts utilised	—	—	(4.1)	(4.1)
Loans repaid	(0.8)	—	—	(0.8)
Change in probability of default	1.1	0.1	0.7	1.9
At 31 December 2020	2.2	1.5	1.5	5.2

	Expected credit loss coverage %	Basis for recognition of loan repurchase liability	Gross assets of external parties subject to loan repurchase liability £m	Loan repurchase liability £m
At 31 December 2019				
Performing (due in 30 days or less)	5.0	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)	100.0	Lifetime ECL	—	—
		Total	41.5	2.9

16. Provisions and other liabilities continued

Loan repurchase liability continued

At 31 December 2020	Expected credit loss coverage %	Basis for recognition of loan repurchase liability	Gross assets of external parties subject to loan repurchase liability £m	Loan repurchase liability £m
Performing (due in 30 days or less)	10.8	12-month ECL	20.3	2.2
Underperforming (31–90 days overdue)	71.5	Lifetime ECL	2.1	1.5
Non-performing (90+ days overdue)	79.0	Lifetime ECL	1.9	1.5
		Total	24.3	5.2

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 stress 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; and iv) very high losses reflecting Covid-19 stress scenarios with the peak of defaults having occurred in H2 2020 and then de-stressing gradually afterwards.

The stress scenario used was a geography-weighted scenario reflecting higher losses on the Netherlands book than that of the German portion of the loan book. This reflects the impact of the German Government's stimulus programme, resulting in a blended stress of defaults having peaked in H2 2020 and de-stressing gradually afterwards.

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. Estimated recoveries from defaults are discounted back to their present value using the effective interest rate. The items that the model is most sensitive to are default rates. Management has applied an estimated weighted average lifetime default rate across cohorts of 20.5% (31 December 2019: 12.9%). See note 2 for a sensitivity analysis on the impact of a change in default rates. At 31 December 2020, 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 £24.3 million (2019: £41.5 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;
- lease liabilities; and
- loan repurchase liabilities.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

17. Financial risk management continued**Principal financial instruments continued****Categorisation of financial assets and financial liabilities**

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2020:

	Fair value through profit and loss £m	Amortised cost £m	Total £m
Assets			
Investment in SME loans (other)	–	25.0	25.0
Investment in SME loans (warehouse)	221.8	–	221.8
Investment in SME loans (securitised)	279.8	–	279.8
Investment in trusts	21.2	–	21.2
Trade and other receivables	0.3	19.4	19.7
Cash and cash equivalents	24.8	78.5	103.3
	547.9	122.9	670.8
Liabilities			
Trade and other payables	–	(7.7)	(7.7)
Loan repurchase liability	–	(5.2)	(5.2)
Bank borrowings	–	(195.5)	(195.5)
Bonds	(7.8)	(286.5)	(294.3)
Lease liabilities	–	(30.8)	(30.8)
	(7.8)	(525.7)	(533.5)

The tables show the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2019:

	Fair value through profit and loss £m	Amortised cost £m	Total £m
Assets			
Investment in SME loans (other)	–	1.7	1.7
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			
Trade and other payables	–	(4.9)	(4.9)
Loan repurchase liability	–	(2.9)	(2.9)
Bank borrowings	–	(265.8)	(265.8)
Bonds	(20.0)	(328.7)	(348.7)
Lease liabilities	–	(38.3)	(38.3)
	(20.0)	(640.6)	(660.6)

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), bank borrowings, lease liabilities, certain bonds, loan repurchase liabilities 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.

17. Financial risk management continued

Financial instruments measured at fair value

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

Disclosure of fair value measurements by level is according to the following fair value measurement hierarchy:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the 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 relate to derivative financial instruments. 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			Total £m
	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	
31 December 2020				
Financial assets				
Trade and other receivables	—	0.1	0.2	0.3
Investment in SME loans (warehouse)	—	—	221.8	221.8
Investment in SME loans (securitised)	—	—	279.8	279.8
Investment in trusts	—	—	21.2	21.2
Cash and cash equivalents	24.8	—	—	24.8
	24.8	0.1	523.0	547.9
Financial liabilities				
Bonds	—	—	(7.8)	(7.8)
	—	—	(7.8)	(7.8)

	Fair value measurement using			Total £m
	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	
31 December 2019				
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	—	—	(20.0)	(20.0)
	—	—	(20.0)	(20.0)

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

17. Financial risk management continued**Financial instruments measured at fair value continued**

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 £221.8 million at 31 December 2020 (2019: £342.0 million).

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 £279.8 million at 31 December 2020 (2019: £366.6 million).

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 £7.8 million at 31 December 2020 (2019: £20.0 million).

Investment in trusts represents the Group's investment in the trusts used to fund CBILS loans for which the government-owned British Business Bank will guarantee up to 80% of the balance in the event of default and is measured at fair value through profit and loss. The fair value has been estimated by discounting future cash flows in relation to the trusts 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 trusts was £21.2 million at 31 December 2020 (2019: £nil).

The most relevant significant unobservable input relates to the default rate estimate and discount rates applied to the fair value calculation, details of which are set out in note 2 for those with material estimation uncertainty.

Fair value movements on investment in SME loans (warehouse), investment in SME loans (securitised), investments in trusts and bonds (unrated) are recognised through the profit and loss account in fair value (losses)/gains.

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	Investment in trusts £m	Trade and other receivables £m
At 1 January 2019	—	—	—	—	—
Additions	673.4	—	(17.1)	—	—
Securitisations	(292.2)	414.5	—	—	—
Repayments	(32.5)	(37.4)	0.7	—	—
Net (loss)/gain on the change in fair value of financial instruments at fair value through profit and loss	(0.5)	(5.8)	(3.6)	—	—
Foreign exchange loss	(6.2)	(4.7)	—	—	—
At 31 December 2019	342.0	366.6	(20.0)	—	—
Additions	286.9	—	—	20.9	—
Securitisations	(214.2)	214.2	—	—	—
Transfers	(0.2)	—	—	—	0.2
Repayments	(146.9)	(211.7)	4.2	—	—
Disposal	—	—	(4.0)	—	—
Net (loss)/gain on the change in fair value of financial instruments at fair value through profit and loss	(43.4)	(87.2)	12.0	0.3	—
Foreign exchange loss	(2.4)	(2.1)	—	—	—
At 31 December 2020	221.8	279.8	(7.8)	21.2	0.2

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 2020 £m	31 December 2019 £m
Non-current		
Investment in SME loans (other)	0.7	1.7
Investment in trusts	21.2	—
Current		
Investment in SME loans (other)	24.3	—
Investment in SME loans (warehouse)	221.8	342.0
Investment in SME loans (securitised)	279.8	366.6
Trade and other receivables:		
– Trade receivables	1.6	0.9
– Other receivables	15.5	17.3
– Rent and other deposits	2.6	3.9
Cash and cash equivalents	103.3	164.5
Total gross credit risk exposure	670.8	896.9
Less bank borrowings and bond liabilities	(489.8)	(614.5)
Total net credit risk exposure	181.0	282.4

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 financial guarantees were every eligible loan required to be bought back would be £24.3 million (2019: £41.5 million).

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: £78.3 million (2019: £112.6 million), A+ or better: £24.8 million (2019: £51.1 million) and below A- rated: £0.2 million (2019: £0.8 million).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

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 liquidity requirements of the bonds are met from cash flows generated by the investment in SME loans (securitised) and the liquidity requirements of bank borrowings are met from cash flows generated by investment in SME loans (warehouse) and SME loans (other).

The maturity analysis of financial instruments at 31 December 2020 and 31 December 2019 is as follows:

	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
At 31 December 2020							
Financial liabilities							
Trade and other payables	(7.7)	–	–	–	(7.7)	–	(7.7)
Bank borrowings	(171.2)	–	(24.3)	–	(195.5)	–	(195.5)
Bonds	(45.9)	(101.7)	(164.3)	–	(311.9)	17.6	(294.3)
Loan repurchase liability ¹	(5.2)	–	–	–	(5.2)	–	(5.2)
Lease liabilities	(1.8)	(5.5)	(24.3)	(2.2)	(33.8)	3.0	(30.8)
	(231.8)	(107.2)	(212.9)	(2.2)	(554.1)	20.6	(533.5)
At 31 December 2019							
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 liability 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)

1. Financial guarantees provided for in the loan repurchase liability are allocated to the earliest period in which the guarantee could possibly be called.

2. Included within the impact of discounting on bonds is £2.5 million of deferred bond issuance costs (2019: £2.7 million).

During 2020, the Group maintained revolving credit facility agreements of up to £220 million and \$180 million for the Group's UK and US ABS programmes respectively, including a new facility in the US of up to \$175 million in the year. The facilities are drawn down in order to fund the purchase of SME loans for the warehouses. Due to the impact of Covid-19 and the refocus towards CBILS and PPP loan originations, the warehouses have ceased reinvestment of proceeds from SME loans and commenced paying down the outstanding facility balances. As at 31 December 2020, the amounts drawn in the UK and US totalled £120.6 million (2019: £144.8 million) and \$69.2 million (2019: \$159.8 million) respectively. Interest is payable on the borrowings in the UK at 2.0% plus 1 month London Inter-Bank Offered Rate ("LIBOR") and in the US at 2.5% plus the 3 month commercial paper rate on the initial facility and at 3 month USD LIBOR + 3.0% on the new facility respectively.

Additionally in the US the Group has drawn \$33.1 million (2019: \$nil) on the PPP Liquidity Facility available from the Federal Reserve Bank at a fixed interest rate of 0.35%.

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.

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.

17. Financial risk management continued

Financial risk factors continued

Market risk continued

b) Cash flow and fair value interest rate risk continued

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:

At 31 December	Less than 3 months		Between 3 months and 1 year		Between 1 and 5 years	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Fixed rate						
Investment in SME loans (other) ²	—	—	—	—	25.0	1.7
Investment in trusts	—	—	—	—	21.2	—
Investment in SME loans (warehouse) ¹	1.6	0.3	2.8	11.5	217.4	330.2
Investment in SME loans (securitised) ¹	0.2	0.6	8.3	4.9	271.3	361.1
Bank borrowings ²	—	—	—	—	(24.3)	—
Bonds ¹	—	—	—	—	(169.9)	(128.9)
Floating rate						
Cash and cash equivalents	103.3	164.5	—	—	—	—
Bank borrowings	(171.2)	(265.8)	—	—	—	—
Bonds	—	—	—	—	(124.4)	(219.8)
	(66.1)	(100.4)	11.1	16.4	216.3	344.3

1. The bonds, investment in SME loans (warehouse) and investment in SME loans (securitised) are classified as current on the balance sheet, reflecting 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.

2. The fixed rate bank borrowings and investment in SME loans (other) represent the Group's drawing of the PPP liquidity facility in the US in order to fund PPP loan originations. These are classified as current on the balance sheet, representing the expectation that the PPP loans will be forgiven by the SBA and the associated liability will be repaid from the proceeds within 12 months of the balance sheet date. 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 (warehouse), investment in SME loans (securitised), investment in trusts, certain bank borrowings (in the US) 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 the impact of movements in interest rates on the value of the assets 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 1.0% increase in LIBOR would result in an increase of annual interest paid on facilities drawn to their current levels of £1.7 million.

Interest on bonds (in the UK) is subject to movements in the Sterling Overnight Index Average Rate ("SONIA"). However, the Group has mitigated the risk of increases in interest rates through the use of interest rate caps. A 1.0% increase in SONIA would result in an increase of projected annual interest expense for the year ended 31 December 2021 of £1.1 million.

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes.

As described above the Group is exposed to GBP and USD LIBOR on bank borrowings and cash and cash equivalents. The Group has monitored the market and output from industry working groups and regulators which manage the transition to the new benchmark interest rates away from GBP LIBOR to SONIA and USD LIBOR to SOFR. In response to the transition the Group has identified all its LIBOR exposures and is undertaking a plan to smoothly transition to alternative benchmark rates. Given the Group's exposures relate to bank borrowings and cash and cash equivalents, the impact is limited and the Group expects to rely on fall-back language within the contracts.

The amendments to IFRS 9 will be applied until uncertainty arising from the benchmark interest rate reforms that the Group is exposed to ends. This uncertainty will remain until the Group's contracts that reference LIBOR are amended to reference the alternative benchmark.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

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 income. Derivatives are not designated into formal hedging relationships within the Group.

At 31 December 2020	Interest rate cap US warehouse	Interest rate cap US warehouse	Interest rate cap UK securitisation
Notional amount	\$180m	\$87.5m	£177m ¹
Underlying	USD LIBOR	USD LIBOR	GBP SONIA
Strike rate	4.0%	4.0%	2.0%
Maturity	June 2021	March 2022	July 2024
Fair value	—	—	£0.1m

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 income 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 table below sets out the Group's currency exposures from financial assets and liabilities held by Group companies in currencies other than their functional currencies and resulting in exchange movements in the income statement and balance sheet.

	31 December 2020				31 December 2019			
	US dollars £m	GBP £m	EUR £m	Total £m	US dollars £m	GBP £m	EUR £m	Total £m
Cash and cash equivalents	0.2	—	2.3	2.5	0.2	—	0.1	0.3
Intra-Group assets	—	—	—	—	0.1	1.5	0.8	2.4
Intra-Group liabilities	(0.5)	(10.1)	(8.3)	(18.9)	(0.1)	—	(0.7)	(0.8)

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.

17. Financial risk management continued

Financial risk factors continued

d) Foreign exchange risk continued

The Group's sensitivity to fluctuations in foreign currencies is related to the US dollar and euro amounts held in the Parent Company.

At 31 December	Appreciation in pound sterling				Depreciation in pound sterling			
	Income statement 2020 £m	Equity 2020 £m	Income statement 2019 £m	Equity 2019 £m	Income statement 2020 £m	Equity 2020 £m	Income statement 2019 £m	Equity 2019 £m
US dollars	(0.5)	(2.9)	–	(6.7)	0.6	3.2	–	7.4
Euros	(0.3)	0.5	–	(2.0)	0.3	(0.5)	–	2.2
	(0.8)	(2.4)	–	(8.7)	0.9	2.7	–	9.6

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 2020 Number	31 December 2020 £	31 December 2019 Number	31 December 2019 £
Called up, allotted and fully paid				
Ordinary shares of £0.001	352,943,975	352,944	348,399,274	348,399

During 2020, the Company issued 4,544,701 ordinary shares of £0.001 ranking pari passu with ordinary shares in issue (2019: 2,366,196) in connection with employee share schemes, giving rise to a total share premium of £0.3 million (2019: £0.5 million).

Included in the total number of ordinary shares outstanding above are 1,114,518 (2019: 2,282,239) shares held by the Group's Employee Benefit Trust and 2,508,079 (2019: nil) shares held by the Group's Share Incentive Plan Trust.

19. Share premium account

	2020 £m	2019 £m
At 1 January	292.3	291.8
Exercise of options – proceeds received	0.3	0.5
At 31 December	292.6	292.3

20. Foreign exchange reserve

	£m
At 1 January 2019	15.7
Exchange difference on translating the net assets of foreign operations	(7.7)
At 31 December 2019	8.0
Exchange difference on translating the net assets of foreign operations	1.7
At 31 December 2020	9.7

Exchange differences relating to the translation of the net assets of the Group's subsidiaries from their functional currency into the Company's functional currency are recognised directly in the foreign exchange reserves within equity.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

21. (Accumulated losses)/retained earnings

	£m
At 1 January 2019	87.2
Capital reduction	–
Transfer of share option costs	4.0
Loss for the year	(84.7)
At 31 December 2019	6.5
Capital reduction	–
Transfer of share option costs	3.2
Loss for the year	(108.3)
At 31 December 2020	(98.6)

The transfer of share option costs is in relation to the exercise of share options during the year and their associated costs in the share options reserve which are transferred to retained earnings.

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 Plans

Since the Company's admission on the London Stock Exchange to the year ended 31 December 2019, the Company operated a single discretionary share-based long-term incentive plan ("LTIP"). In November 2020, the Company introduced a Share Incentive Plan ("SIP") approved by HMRC, which includes free shares, partnership shares and matching shares. This plan is only relevant for UK based employees; the LTIP will continue to make awards for non-UK based employees and employees in senior management positions.

The main features of the LTIP and SIP are set out below.

Post-IPO – LTIP

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

Post-IPO Employee Share Plans continued

Post-IPO – SIP

Form of SIP awards

The Board grants awards in the form of: free shares, partnership shares and matching shares.

Performance conditions

There are no performance conditions attached to free shares, partnership shares and matching shares.

Free shares

Under the SIP, UK employees are eligible to receive up to a maximum of £3,600, or ten percent of annual salary if less, of Free Shares per tax year. Free Shares will be awarded annually with a forfeiture period of two years and a holding period of three years.

Matching shares

UK employees are invited to buy partnership shares from pre-tax salary with a maximum investment in each tax year of £1,800 or 10% of annual salary, if less. Partnership shares are purchased every month. Employees can withdraw partnership shares from the SIP at any time although there are tax advantages if the shares are retained in the SIP for at least three years.

Participants are awarded one matching share for every one partnership share they purchase. There are tax advantages if the matching shares are retained in the SIP for at least three years.

Whilst employed by the Company, a participant will forfeit a corresponding number of matching shares if they choose to transfer partnership shares out of the SIP within three years of the date of purchase.

Under normal circumstances, if a participant leaves the Company before the second anniversary of the date of award, they will forfeit their matching shares. If they leave between two and three years of the date of award, they retain their matching shares but those shares must be removed from the SIP and any tax advantages are lost. If a participant leaves under special circumstances, they will retain all of their matching shares, regardless of how long they have been held in the SIP.

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 Options 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.

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 market prices. When market prices do not exist for shares or rights to shares with similar characteristics, fair value is determined by using a valuation technique (either the Monte Carlo or Black-Scholes pricing model as is most appropriate for each scheme).

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

22. Share-based payment continued**Charge for the year**

Included in operating expenses of the Group is a charge for share-based payments and associated social security costs of £5.6 million (2019: £8.0 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

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 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

	EMI Options		Unapproved Options		Free shares and matching 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 2020	481,312	0.027	7,315,334	0.298	–	–	8,513,092	–	4,606,207	0.426	20,915,945	0.199
Granted during the year	–	–	–	–	2,519,616	–	11,340,072	–	–	–	13,859,688	–
Exercised during the year	(170,000)	0.027	(486,791)	0.309	–	–	(944,652)	–	(208,008)	0.390	(1,809,451)	0.131
Forfeited during the year	(5,000)	0.027	(536,454)	0.266	(20,319)	–	(4,393,292)	–	(743,344)	0.444	(5,698,409)	0.083
Outstanding at 31 December 2020	306,312	0.027	6,292,089	0.300	2,499,297	–	14,515,220	–	3,654,855	0.424	27,267,773	0.140

1. Weighted average exercise price.

22. Share-based payment continued

Movements in share plans continued

The following table summarises information about the share awards outstanding at 31 December 2020:

Range of exercise prices	EMI Options		Unapproved Options		Free shares and matching shares		LTIP Awards		US Options		Total	
	Number and WARCL ²		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0–£0.008	–	–	2,260,017	7.4	2,499,297	–	14,515,220	7.4	120,969	7.6	19,395,503	6.3
£0.009–£0.176	306,312	2.2	789,918	1.1	–	–	–	–	28,456	–	1,124,686	1.3
£0.177–£0.471	–	–	2,866,949	6.9	–	–	–	–	2,855,402	4.4	5,722,351	5.7
£0.472–£1.75	–	–	375,205	7.5	–	–	–	–	650,028	6.3	1,025,233	6.7
	306,312	2.2	6,292,089	6.4	2,499,297	–	14,515,220	7.4	3,654,855	4.8	27,267,773	6.0

The following table summarises information about the share awards outstanding at 31 December 2019:

Range of exercise prices	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	
	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

2. Weighted average remaining contractual life.

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:

	31 December 2018
Unapproved Options Scheme	
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 at grant date as the fair value of the LTIP Awards granted during the year to employees.

In the prior financial year, the only exception to this was for awards made to the former Chief Financial Officer, who departed prior to the end of this financial year (these awards have therefore lapsed). These awards contained market-based performance conditions and the fair value at grant date was calculated using a Black-Scholes model.

The incumbent Chief Financial Officer's LTIP Awards do not contain market-based performance conditions but do include non-market performance conditions (refer to Remuneration Report for further detail) and, therefore, the Company's share price at grant date is the fair value used, with the likelihood of achieving the non-market performance conditions factored into the accounting charge. In line with IFRS 2, the likelihood will be reassessed at the end of each reporting period.

Free shares and matching shares

The Company has used its share price at grant date as the fair value of free shares and matching shares granted during the year to employees.

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

23. Notes to the consolidated statement of cash flows**Cash inflow/(outflow) from operating activities**

	31 December 2020 £m	31 December 2019 £m
Loss before taxation	(108.1)	(84.2)
Adjustments for		
Depreciation of property, plant and equipment	9.0	7.8
Amortisation of intangible assets	8.2	7.1
Impairment of goodwill (exceptional item)	12.0	29.0
Impairment of intangible and tangible assets (exceptional item)	1.7	5.3
Share based payment restructuring credit (exceptional item)	(1.0)	–
Interest receivable	(0.4)	(1.8)
Interest payable	1.4	1.2
Non-cash employee benefits expense – share-based payments and associated social security costs	6.4	7.7
Fair value losses	118.3	9.9
Movement in restructuring provision	1.1	–
Movement in loan repurchase liability	2.3	(0.2)
Movement in other provisions	2.5	(0.4)
Share of losses of associates	0.8	0.1
Other non-cash movements	1.2	(0.1)
Changes in working capital		
Movement in trade and other receivables	(35.3)	(9.1)
Movement in trade and other payables	13.0	0.7
Net cash inflow/(outflow) from operating activities	33.1	(27.0)

Cash and cash equivalents

	31 December 2020 £m	31 December 2019 £m
Cash and cash equivalents	103.3	164.5

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 £1.0 million (2019: £1.2 million) which is restricted in use in the event of rental payment defaults and cash held in the securitisation and warehouse SPVs of £38.9 million (2019: £14.2 million) which has been collected for on-payment to lenders and bond holders and is therefore restricted in its use. A further £4.3 million (2019: £nil) of cash is held which is restricted in use to repaying investors in CBILS loans and paying CBILS-related costs to the UK Government.

At 31 December 2020, money market funds totalled £24.8 million (2019: £46.0 million).

Analysis of changes in liabilities from financing activities

	1 January 2019 £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)
	1 January 2020 £m	Cash flow £m	Exchange movements £m	Other non-cash movements £m	31 December 2020 £m
Bank borrowings	(265.8)	69.0	1.3	–	(195.5)
Bonds	(348.7)	35.6	6.8	12.0	(294.3)
Lease liabilities	(38.3)	7.8	(0.3)	–	(30.8)
Liabilities from financing activities	(652.8)	112.4	7.8	12.0	(520.6)

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 2020 £m	31 December 2019 £m
Lease payments under operating leases recognised as an expense in the year	0.1	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 2020 £m	31 December 2019 £m
Within one year	—	0.1
In the second to fifth years inclusive	—	—
After five years	—	—
	—	0.1

Operating lease payments represent payments for lease assets that are individually considered low value.

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.

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 2020 £m	31 December 2019 £m
Salaries and short-term benefits	3.3	4.2
Equity-based compensation	1.9	2.7
Post-employment benefits	0.1	0.1
	5.3	7.0

Further details on Directors' remuneration are disclosed in the Remuneration Report in the Corporate Governance section of the Annual Report and Accounts on pages 78 to 98.

Transactions with other related parties

During the year the Group invested £0.4 million (2019: £13.9 million) into entities accounted for as associates, received capital redemptions of £2.3 million (2019: £nil), and received dividends of £0.4 million (2019: £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

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

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

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 BB Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Eclipse Lending Limited	UK	100%	Indirectly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Focal Point Lending 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
Funding Circle Midco Limited	UK	100%	Directly	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Property 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
Made To Do More Limited	UK	100%	Indirectly	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
Funding Circle Investor Funds, LLC	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
FC Partners, LLC (dissolved 23 November 2020)	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Securities LLC (dissolved 13 November 2020)	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 Capital US II 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 (dissolved 19 October 2020)	USA	100%	Indirectly	85 Second Street, 4th Floor, San Francisco, California 94105
Funding Circle Diversified Income Fund, LP (dissolved 23 November 2020)	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 (dissolved 29 May 2020)	Germany	100%	Directly	Bergmannstraße 71/72, 10961 Berlin
Funding Circle Espana S.L.	Spain	100%	Indirectly	Calle Claudio Coello número 91, 3a planta, 28006 Madrid
Funding Circle Nederland B.V.	Netherlands	100%	Indirectly	Atrium, Strawinskylaan 3075, 4th Floor, 1077 ZX Amsterdam
Funding Circle Canada Inc. (dissolved 5 October 2020)	Canada	100%	Indirectly	c/o TMF Canada Inc., 330 Bay Street, Suite 820, Toronto ON M5H 2S8
Funding Circle Capital Canada Inc. (dissolved 8 September 2020)	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 2020 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 ¹	Ireland	24%	Indirectly	70, Sir John Rogerson's Quay, Dublin 2, Ireland
Funding Circle UK SME Direct Lending Fund I ¹	Ireland	8%	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. 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.

	Funding Circle European SME Direct Lending Fund I 31 December 2020	Funding Circle UK SME Direct Lending Fund I 31 December 2020	Funding Circle European SME Direct Lending Fund I 31 December 2019	Funding Circle UK SME Direct Lending Fund I 31 December 2019
Summarised balance sheet	£m	£m	£m	£m
Non-current assets	5.4	5.0	8.3	4.9
Current assets	0.8	0.3	0.3	0.2
Current liabilities	—	—	—	—
Non-current liabilities	—	—	—	—
Net assets	6.2	5.3	8.6	5.1

Notes forming part of the consolidated financial statements continued

for the year ended 31 December 2020

30. Interests in other entities continued**Reconciliation of associates' total shareholders' equity to carrying amount in Funding Circle Holdings plc's consolidated financial statements**

	Funding Circle European SME Direct Lending Fund I 2020 £m	Funding Circle UK SME Direct Lending Fund I 2020 £m	Funding Circle European SME Direct Lending Fund I 2019 £m	Funding Circle UK SME Direct Lending Fund I 2019 £m
Opening net assets as at 1 January 2020	35.1	35.6	—	—
Shares issued in the year	1.2	30.4	34.9	35.0
Profit for the year	(1.9)	0.9	0.4	0.8
Exchange differences	1.9	—	—	—
Other comprehensive income	—	—	—	—
Capital redemptions in the year	(9.6)	—	—	—
Dividends paid in the year	(0.4)	(2.8)	(0.2)	(0.2)
Closing net assets as at 31 December 2020	26.3	64.1	35.1	35.6
Group's share in %	23.6%	8.3%	24.4%	14.3%
Group's share of net assets as at 31 December 2020	6.2	5.3	8.6	5.1
Accounting policy alignment	(0.2)	(0.3)	(0.3)	(0.2)
Group's carrying amount	6.0	5.0	8.3	4.9

	Funding Circle European SME Direct Lending Fund I 2020 £m	Funding Circle UK SME Direct Lending Fund I 2020 £m	Funding Circle European SME Direct Lending Fund I 2019 £m	Funding Circle UK SME Direct Lending Fund I 2019 £m
Summarised statement of comprehensive income				
Gross income	0.7	0.5	0.4	0.2
(Loss)/profit for the year	(0.4)	0.1	0.1	0.1
Other comprehensive income	—	—	—	—
Total comprehensive (loss)/income	(0.4)	0.1	0.1	0.1
Dividends received from associates	0.1	0.3	0.1	—
Capital redemptions received from associates	2.3	—	—	—

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.

30. Interests in other entities continued

Consolidated structured entities: Small Business Origination Loan Trust 2019-3 DAC, Great Trinity Lending 1 DAC, Small Business Lending Trust 2019-A, Small Business Lending Grantor Trust 2019-A, Small Business Lending Trust 2020-A and Small Business Lending Grantor Trust 2020-A are consolidated structured warehouse and securitisation entities 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 Focal Point Lending Ltd	Subsidiary via which CBILS loans are originated and which holds legal title to loans which are held via trust structures for the beneficial ownership of institutional investors.
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 2020

	Note	31 December 2020 £m	31 December 2019 £m
Non-current assets			
Investments in subsidiary undertakings	5	303.3	416.2
Loans due from subsidiary undertakings	7	—	—
		303.3	416.2
Current assets			
Loans due from subsidiary undertakings	7	10.1	0.9
Trade and other receivables	6	1.0	0.6
Cash and cash equivalents	11	27.8	80.8
		38.9	82.3
Total assets		342.2	498.5
Current liabilities			
Trade and other payables	8	1.7	1.3
Total liabilities		1.7	1.3
Equity			
Share capital	9	0.3	0.3
Share premium account	9	292.6	292.3
Share options reserve		13.6	11.9
Retained earnings	10	34.0	192.7
Total equity		340.5	497.2
Total equity and liabilities		342.2	498.5

The Company's loss for the year was £161.9 million (2019: loss of £81.6 million).

The financial statements on pages 160 to 170 were approved by the Board and authorised for issue on 25 March 2021. They were signed on behalf of the Board by:

Oliver White
Director

Company registration number 07123934

The notes on pages 163 to 170 form part of these financial statements.

Company statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital £m	Share premium account £m	Share options reserve £m	Retained earnings/ (accumulated losses) £m	Total equity £m
Balance at 1 January 2019		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
Loss for the year	10	—	—	—	(161.9)	(161.9)
Transactions with owners						
Transfer of share option costs		—	—	(3.2)	3.2	—
Issue of share capital	9	—	0.3	—	—	0.3
Employee share schemes – value of employee services		—	—	4.9	—	4.9
Balance at 31 December 2020		0.3	292.6	13.6	34.0	340.5

The notes on pages 163 to 170 form part of these financial statements.

Company statement of cash flows

for the year ended 31 December 2020

	Note	31 December 2020 £m	31 December 2019 £m
Net cash outflow from operating activities	11	(3.5)	(4.1)
Investing activities			
Loans advanced to subsidiary undertakings	7	(29.0)	—
Loan repayment from subsidiary undertakings	7	20.7	0.2
Capital contribution to subsidiary undertakings	5	(41.6)	(220.9)
Interest received		0.2	1.2
Net cash outflow from investing activities		(49.7)	(219.5)
Financing activities			
Proceeds on the issue of shares from the exercise of share options		0.2	0.7
Net cash inflow from financing activities		0.2	0.7
Net decrease in cash and cash equivalents		(53.0)	(222.9)
Cash and cash equivalents at the beginning of the year		80.8	303.7
Cash and cash equivalents at the end of the year		27.8	80.8

The notes on pages 163 to 170 form part of these financial statements.

Notes forming part of the Company financial statements

for the year ended 31 December 2020

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 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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.

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 made a comprehensive loss for the year of £161.9 million (2019: comprehensive loss of £81.6 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).

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 higher of value in use and fair value less cost to sell, with value in use being applied for this assessment. 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.

Following the impact of Covid-19 and a change in the investments' income and cost forecasts, an event indicating the possibility of impairment was identified and an impairment review undertaken. Impairment was identified in relation to the investment in the Funding Circle USA CGU as the carrying value exceeded the value in use determined by this impairment assessment. The investment was impaired by £155.9 million to £88.2 million. It is considered that there are reasonably possible outcomes that may differ from management's estimation assumptions that could lead to material additional 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:

- fifth-year income growth of 27.0% and fifth-year cost growth of 16.0%. A 400 bps decline in the projected fifth-year income growth rate with no cost reduction or a 400 bps increase in the projected fifth-year cost growth rate without income growth would reduce the estimated value in use by £16.1 million and £14.7 million respectively;
- pre-tax discount rate of 11.6%. A 100 bps increase in the discount rate would reduce the estimated value in use by £10.1 million; and
- income beyond the five-year period is extrapolated using an estimated growth rate of 1.5%. A reduction in the growth rate to 0.0% would reduce the estimated value in use by £9.3 million.

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

During the prior year ended 31 December 2019 impairment was identified in relation to the investment in Funding Circle CE 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 recoverable value. The investment was fully impaired by £77.5 million.

Notes forming part of the Company financial statements continued

for the year ended 31 December 2020

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 2020:

	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	10.1	10.1	—	—
Trade and other receivables	0.9	0.9	—	—
Cash and cash equivalents	13.4	13.4	14.4	—
	24.4	24.4	14.4	—
Liabilities				
Trade and other payables	(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 categorised as 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 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				
Amounts due to related undertakings	(0.2)	(0.2)	–	–
	(0.2)	(0.2)	–	–

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 2020 and 31 December 2019 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 2020 £m	31 December 2019 £m
Non-current		
Loans due from related undertakings	–	–
Current		
Loans due from related undertakings	10.1	0.9
Trade and other receivables:		
– Amounts due from related undertakings	0.9	0.3
Cash and cash equivalents	27.8	80.8

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 2020

2. Financial risk management continued**Financial risk factors continued****Liquidity risk continued**

The maturity analysis of financial assets and liabilities at 31 December 2020 and 31 December 2019 is as follows:

	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m
At 31 December 2020				
Financial assets				
Trade and other receivables	0.9	—	—	—
Cash and cash equivalents	27.8	—	—	—
Loans due from related undertakings	10.1	—	—	—
	38.8	—	—	—
Financial liabilities				
Trade and other payables	(0.2)	—	—	—
	(0.2)	—	—	—
At 31 December 2019				
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)	—	—	—

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.£0.1 million (2019: c.£0.4 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 reporting 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.

2. Financial risk management continued

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.

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

The Company made a comprehensive loss for the year of £161.9 million (2019: comprehensive loss of £81.6 million).

4. Employees

The Company had no employees during the current or prior year other than Directors who numbered 10 (2019: 10). 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 (2019: £1.2 million). For further information see the Remuneration Report.

5. Investments in subsidiary undertakings

	2020 £m	2019 £m
Balance at 1 January	416.2	264.6
Capital contribution regarding employee services in subsidiaries	4.1	8.2
Additions	41.6	220.9
Impairment	(158.6)	(77.5)
Balance at 31 December	303.3	416.2

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 £nil (2019: £127.1 million), £2.0 million (2019: £9.1 million), £38.9 million (2019: £84.7 million) and £0.7 million (2019: £nil) to Funding Circle USA, Inc., Funding Circle CE GmbH, Funding Circle Ltd and Funding Circle Canada respectively. These amounts have increased the value of investments in subsidiary undertakings before impairment.

In addition to the above, the Company recognised a capital contribution of £4.1 million (2019: £8.2 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 £155.9 million to the Company's investment in Funding Circle USA, Inc. to a value of £88.2 million, £2.0 million in relation to the Company's investment in Funding Circle CE GmbH to a value of £nil and £0.7 million in relation to Funding Circle Midco Limited to a value of £nil (2019: £77.5 million to the Company's investment in Funding Circle CE GmbH to a value of £nil) as the value in use calculated was below the carrying amount.

The cumulative amount of impairment losses in relation to investment in subsidiaries is £236.1 million (2019: £77.5 million).

6. Trade and other receivables

	31 December 2020 £m	31 December 2019 £m
Amounts due from related undertakings	0.9	0.3
Prepayments	0.1	0.2
Accrued income	—	0.1
	1.0	0.6

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 2020

7. Loans due from subsidiary undertakings

	31 December 2020 £m	31 December 2019 £m
Funding Circle USA, Inc.	10.0	—
Funding Circle CE GmbH	—	0.8
Stichting Derdengelden Funding Circle	0.1	0.1
Funding Circle Global Partners Limited	—	—
	10.1	0.9
Less: non-current portion	—	—
Current portion	10.1	0.9

Amount due from Group undertakings

During 2020, the Company operated a loan facility agreement with Funding Circle Ltd (subsidiary company). Under the terms of the agreement, the Company provided an unsecured sterling revolving credit facility of a total principal amount not exceeding £20.0 million (2019: £30.0 million) to Funding Circle Ltd which is repayable at the end of the facility term of five years on 5 August 2025. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England. A term loan facility of £16.0 million was amended in 2019 to operate as a revolving credit facility (2018: £16.0 million term loan facility) under the same terms above which expired on 23 November 2020. In the prior year a term loan facility of up to £30.0 million expired on 31 December 2019 under the same terms above.

During the year the Company has provided £19.0 million (2019: £5.1 million) of additional funding under the facility agreement. Total interest income of £nil (2019: £0.1 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 £19.0 million (2019: £6.6 million) with Funding Circle Holdings plc. £10.0 million of this was settled via cash, and £9.0 million settled via a capital contribution from the Company to Funding Circle Ltd of £9.0 million. The facility was drawn by £nil (2019: £nil) at the balance sheet date.

During the year the Company operated a revolving credit facility to Funding Circle CE GmbH of up to €2.0 million (2019: up to €2.0 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 18 July 2024. The facility was drawn by £nil (2019: £0.8 million) at the balance sheet date. Funding Circle CE GmbH repaid £0.8 million of the facility during 2020.

During the year, the Company continued to operate an unsecured sterling revolving credit facility for £1 million with its subsidiary (Funding Circle Global Partners Limited ("FCGPL")). Under the 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. The facility was drawn by £nil (2019: £nil) at the balance sheet date. 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 undrawn (2019: £0.9 million) at the balance sheet date. In 2019 the Company impaired this loan balance in full under the expected credit loss model. During the year the loan was repaid in full and the impairment was reversed as a credit of £0.9 million to profit and loss.

During the year, the Company provided a term loan facility to Funding Circle USA, Inc. of up to £7.7 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 13 January 2025. The facility was fully drawn at the balance sheet date. In addition, the Company provided a revolving credit facility to Funding Circle USA, Inc. of up to \$3.0 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 27 January 2025. The facility was fully drawn at the balance sheet date.

8. Trade and other payables

	31 December 2020 £m	31 December 2019 £m
Accruals	1.1	0.7
Taxes and social security costs	0.4	0.4
Other creditors	0.2	—
Amounts due to related undertakings	—	0.2
	1.7	1.3

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 2019	270.3
Transfer of share option costs	4.0
Loss for the year	(81.6)
At 31 December 2019	192.7
Transfer of share option costs	3.2
Loss for the year	(161.9)
At 31 December 2020	34.0

11. Notes to the Company statement of cash flows

Cash outflow from operating activities

	31 December 2020 £m	31 December 2019 £m
Loss before taxation	(161.9)	(81.6)
Adjustments for		
Interest receivable	(0.2)	(1.4)
Non-cash employee benefits expense – share-based payments	1.1	1.5
Impairments (note 5 and note 7)	158.6	78.4
Reversal of prior year impairment charge	(0.9)	—
Changes in working capital		
Movement in trade and other receivables	(0.6)	(0.4)
Movement in trade and other payables	0.4	(0.6)
Net cash outflow from operating activities	(3.5)	(4.1)

Cash and cash equivalents

	2020 £m	2019 £m
Balance at 1 January	80.8	303.7
Cash flow	(53.0)	(222.9)
Balance at 31 December	27.8	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 2020, money market funds totalled £14.4 million (2019: £46.0 million).

Notes forming part of the Company financial statements continued

for the year ended 31 December 2020

12. Related parties

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2020 £m	31 December 2019 £m	31 December 2020 £m	31 December 2019 £m
Short-term payables/receivables				
Funding Circle Ltd	0.8	0.2	—	—
Funding Circle USA, Inc.	0.1	0.1	—	—
Funding Circle CE GmbH	—	—	—	0.2
Intercompany loans				
Funding Circle USA, Inc.	10.0	—	—	—
Funding Circle CE GmbH	—	0.8	—	—
Stichting Derdengelden Funding Circle	0.1	0.1	—	—
	11.0	1.2	—	0.2

During the year, the Company received payment of expenses for amounts of £0.4 million (2019: received payment of expenses for amounts of £1.5 million) from Funding Circle Ltd.

As at the year end, the Company was owed a cumulative amount of £10.0 million (2019: £nil), £0.1 million (2019: £0.1 million) and £nil (2019: £0.8 million) from loans with Funding Circle Ltd, Stichting Derdengelden Funding Circle and Funding Circle CE GmbH. An impairment was recognised in 2019 in relation to amounts owed from Funding Circle Canada, which was subsequently repaid in 2020, and a credit to the profit and loss account was recognised.

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 BB Limited	12593368
Funding Circle Eclipse Lending Limited	12570773
Funding Circle Focal Point Lending Limited	12407296
Funding Circle Global Partners Limited	10554628
Funding Circle Midco Limited	11793162
Funding Circle Property Finance Limited	08896582
Funding Circle Trustee Limited	07239092

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 CE 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.

Glossary

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.
Investment AEBITDA and Operating AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Refer to Finance Review.	Investment AEBITDA refers to net investment income (being investment income, investment expense and fair value adjustments) as previously reported and operating AEBITDA represents AEBITDA excluding investment AEBITDA.
Net investment income	Net income.	Refer to Finance Review.	We have redefined net investment income, first described in the 2019 financial results, to be investment income less investment expense. Investment AEBITDA is net investment income less fair value (losses)/gains.
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.
Earnings/loss per share before exceptional items	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.
Diluted earnings/loss per share before exceptional items	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 Finance Review.	Net cash flows from operating activities plus the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows.

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	25 March 2021
Annual Report published	14 April 2021
Annual General Meeting	19 May 2021

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. It is expected that this year's report will be available on our website in September.

Cautionary statement

Certain statements included in our 2020 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.

Company information

Directors

Executive Directors

S Desai CBE (Founder, Chief Executive Officer)

O J White (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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Santander UK plc

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Regent's Place
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Goldman Sachs International

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London EC4V 4AY

Registered number

07123934



Funding Circle Holdings plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Amadeus Silk, an FSC® certified material.

This document was printed by Pureprint Group using its environmental print technology, with 99% of dry waste diverted from landfill, minimising the impact of printing on the environment. The printer is a CarbonNeutral® company.

Both the printer and the paper mill are registered to ISO 14001.

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designportfolio



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