

FUNDING CIRCLE LTD

Annual Report and Financial Statements

For the Year Ended

31 December 2016

Registered number: 06968588

FRIDAY



A6G0IPN4

A10

29/09/2017

#419

COMPANIES HOUSE

Contents

	Page
Officers and professional advisers	2
Strategic report	3
Report of the directors	5
Statement of directors' responsibilities	7
Independent auditors' report	8
Statement of comprehensive income	10
Statement of changes in equity	11
Statement of financial position	12
Statement of cash flows	13
Notes forming part of the financial statements	14-42

FUNDING CIRCLE LTD

Officers and professional advisers

Directors

S Desai
A D Learoyd
J Meekings
E Wray
M King

Secretary

L Vernall

Registered office

71 Queen Victoria Street
London
EC4V 4AY

Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH
United Kingdom

Bankers

Barclays Bank PLC
Level 11
1 Churchill Place
London
E14 5HP

Strategic report for the year ended 31 December 2016

The directors present their strategic report on Funding Circle Ltd (the “Company”) for the year ended 31 December 2016. The directors in preparing this strategic report have complied with s414c of the Companies Act 2006.

Principal Activity

The Company is the leading direct lending platform in the UK where businesses borrow directly from a diverse range of investors, including individuals, institutions and Government. The platform directly connects people and organisations who want to lend, with vetted, established businesses who want to borrow. The platform also provides the opportunity for investors to trade existing loans.

General Business Review

The results of the Company, as set out on page 10, show a loss for the year, after taxation of £13.3m (2015: loss of £18.0m). As at 31 December 2016, the Company had net asset of £10.0m (2015: £5.4m).

The Company continued with its objective of investing for growth in 2016, with a specific focus on investment in people and technology. The benefit of this is clearly demonstrated by revenue which increased by 65% from £23.8m to £39.3m. Further, due to strong performance and growth in revenue, the Company was cash flow positive for the first time during Q4 2016. The annual losses have decreased to £13.3m from £18.0m in 2015.

The loss for the year include charges of £5.3m (2015: £2.5m) relating to the fair value of share based payment benefits which are being recognised over the vesting period. By their nature, these payments are not reflective of ongoing trading performance and are not, therefore, considered part of the underlying results. Therefore, excluding this, the loss for year would reduce to £8.1m (2015: £15.6m). The Company is expected to continue to invest in growth in 2017.

Analysis of Key Performance Indicators

The Company’s key financial and other performance indicators during the year were as follows:

	2016	2015	Change
	£’000	£’000	%
Revenue	39,278	23,803	65%
Total comprehensive loss for the year	(13,337)	(18,006)	26%
Net cash used in operating activities	(6,904)	(15,365)	55%
Total comprehensive loss margin	34%	76%	55%

The key performance indicators of the Company are set out above. 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.

Principal Risks and Uncertainties

The principal risks and uncertainties that the Company faces include, among others, risks related to competition and regulation, management of growth, new products and technologies, commercial agreements, slower economy, system interruptions, government regulations and taxation and fraud. To date, there are no probable material uncertainties that could adversely affect the Company.

The Company is committed to good governance and control in order to run its business effectively and ensure that it can manage risk appropriately in running an innovative and successful business without exposing itself and its customers to unacceptable risk, loss or reputational damage. The Company’s risk appetite is set by its Board in agreement with senior management. The Company operates a three lines of defence compliance model.

Strategic report for the year ended 31 December 2016 (continued)

Going Concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company 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). In making this assessment, the Directors have considered the performance of the Company and the provision of continuing financial support of Funding Circle Holdings Limited ("FCHL"), the immediate Parent of the Company, and its ability to provide such support.

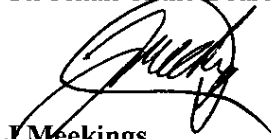
Having made appropriate enquiries, the directors consider that the Company has the ability to remain in operation for the foreseeable future, as they have confirmed the continuing financial support and the ability to provide that support of Funding Circle Holdings Limited and have therefore continued to adopt the going concern basis in preparing financial statements.

Future Developments

The Company is regulated under an interim permission by the Financial Conduct Authority (FCA). The Company filed its application to the FCA for full authorisation on 16 October 2015. As at the date of the signing of these financial statements, the Company continues to work closely with the FCA.

The directors aim to maintain the management policies and processes that support the principal activity of the Company. The Company is continually reviewing and refining these policies to improve the framework of financial control and manages the finances, revenues and costs effectively.

On behalf of the Board



J Meekings
Director

24 April 2017

Report of the directors for the year ended 31 December 2016

The directors present their report on the affairs of the Company together with the audited annual financial statements of the Company and independent auditors' report, for the year ended 31 December 2016. The Company was incorporated on 21 July 2009. It commenced developing a platform to facilitate the raising of finance for businesses in January 2010. The platform became operational in August 2010. The Company became a wholly-owned subsidiary of Funding Circle Holdings Limited in February 2010.

Directors

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

S Desai
A D Learoyd
J Meekings
E Wray
M King

Financial Risk Management

Details regarding financial risk management objectives and policies are included in note 2 in the notes to the financial statements.

Dividends

No dividends were declared and paid during the current and previous financial year.

Future Developments

Details regarding future developments are included in the strategic report.

Independent Auditors

PricewaterhouseCoopers LLP (the "Auditors") has confirmed its willingness to continue in the office and will retain appointment in accordance with Section 487 of the Company Act 2006.

Statement of disclosure of information to auditors

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

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

FUNDING CIRCLE LTD

Report of the directors for the year ended 31 December 2016 (continued)

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

Approved by a duly appointed Committee of the Board of Directors
and signed on behalf of the Board

A handwritten signature in black ink, appearing to read 'J Meekings', written over a circular stamp or seal.

J Meekings
Director
71 Queen Victoria Street,
London
EC4V 4AY

24 April 2017

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

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

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

Independent auditors' report to the members of Funding Circle Ltd

Report on the financial statements

Our opinion

In our opinion, Funding Circle Ltd's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

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

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the directors. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Funding Circle Ltd (continued)

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the directors, we consider whether those reports include the disclosures required by applicable legal requirements.

A. Barford

Andrew Barford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 April 2017

FUNDING CIRCLE LTD

Statement of comprehensive income for the year ended 31 December 2016

	Note	31 December 2016	31 December 2015
		£	£
Revenue	4	39,278,007	23,803,398
Other operating income	5	453,592	-
Operating expenses	6	(53,444,424)	(41,399,600)
Operating loss		(13,712,825)	(17,596,202)
Finance income	9	162,817	81,196
Finance costs	10	(409,390)	(491,014)
Loss before taxation		(13,959,398)	(18,006,020)
Income tax	11	622,308	-
Loss for the year		(13,337,090)	(18,006,020)
Other comprehensive income		-	-
Total comprehensive loss for the year		(13,337,090)	(18,006,020)
Loss and total comprehensive loss attributable to:			
Owners of the parent		(13,337,090)	(18,006,020)

All amounts relate to continuing activities.

The notes on pages 14 to 42 form part of these financial statements.

FUNDING CIRCLE LTD

Statement of changes in equity for the year ended 31 December 2016

	Note	Share capital £	Capital Reserve £	Share premium £	Accumulated losses £	Total equity £
Balance at 1 January 2015		11,931,089	5,326,911	119,302	(20,029,396)	(2,652,094)
Loss and total comprehensive loss for the year	23	-	-	-	(18,006,020)	(18,006,020)
Capital Contribution	21	-	23,592,822	-	-	23,592,822
Employee share schemes – value of employee services	22	-	2,451,945	-	-	2,451,945
Balance at 31 December 2015		11,931,089	31,371,678	119,302	(38,035,416)	5,386,653
Loss and total comprehensive loss for the year	23	-	-	-	(13,337,090)	(13,337,090)
Capital Contribution	21	-	12,635,597	-	-	12,635,597
Employee share schemes – value of employee services	22	-	5,286,508	-	-	5,286,508
Balance at 31 December 2016		11,931,089	49,293,783	119,302	(51,372,506)	9,971,668


The notes on pages 14 to 42 form part of these financial statements.

FUNDING CIRCLE LTD

Statement of financial position as at 31 December 2016

	Note	31 December 2016 £	31 December 2015 £
Non-current assets			
Intangible assets	12	5,833,141	2,067,070
Property, plant and equipment	13	3,886,617	3,953,434
Investments in subsidiary undertakings	14	4	4
Loans due from subsidiary undertakings	15	2,920,652	1,367,515
		12,640,414	7,388,023
Current assets			
Trade and other receivables	16	5,679,550	4,840,045
Cash and cash equivalents	24	10,323,544	9,567,445
		16,003,094	14,407,490
Total assets		28,643,508	21,795,513
Current liabilities			
Trade and other payables	17	(4,762,682)	(5,114,860)
Net current assets		11,240,412	9,292,630
Non-current liabilities			
Long-term provisions	18	(409,158)	(294,000)
Loan payable to parent undertaking	19	(13,500,000)	(11,000,000)
Total liabilities		(18,671,840)	(16,408,860)
Net assets		9,971,668	5,386,653
Equity			
Share capital	20	11,931,089	11,931,089
Share premium account	20	119,302	119,302
Capital reserve	21	49,293,783	31,371,678
Accumulated losses	23	(51,372,506)	(38,035,416)
Total equity		9,971,668	5,386,653

The financial statements on pages 10 to 42 were approved by a duly appointed Committee of the Board and authorised for issue on 24 April 2017. They were signed on behalf of the Board by:


J Meekings
Director

Company registration number 06968588

The notes on pages 14 to 42 form part of these financial statements.

FUNDING CIRCLE LTD

Statement of cash flows for the year ended 31 December 2016

	Note	31 December 2016	31 December 2015
		£	£
Net cash used in operating activities	24	(6,903,721)	(15,364,791)
Investing activities			
Capitalisation of development costs	12	(5,022,446)	(2,249,251)
Purchase of property, plant and equipment	13	(892,633)	(3,973,688)
Purchase of intangible assets	12	(30,990)	(25,184)
Interest received	9	76,889	76,428
Net cash outflow from investing activities		(5,869,180)	(6,171,695)
Financing activities			
Funding to subsidiary undertaking	27	(1,471,000)	-
Funding from parent undertaking	27	15,000,000	23,000,000
Net cash inflow from financing activities		13,529,000	23,000,000
Net increase in cash and cash equivalents		756,099	1,463,514
Cash and cash equivalents at the beginning of the year		9,567,445	8,103,931
Cash and cash equivalents at the end of the year		10,323,544	9,567,445

The notes on pages 14 to 42 form part of these financial statements.

Notes forming part of the financial statements for the year ended 31 December 2016

1 Accounting policies

General information

Funding Circle Ltd (the “Company”) is a private company incorporated on 21 July 2009 in the United Kingdom under the Companies Act 2006. The Company is a wholly-owned subsidiary of Funding Circle Holdings Limited (the “Parent”). The address of its registered office is given on page 2.

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

Going concern

The Company’s business activities together with the factors likely to affect its future development and position are set out in the Principal Activity and General Business Review section of the Strategic Report on page 3.

The Company made a loss of £13.3m during the year ended 31 December 2016 (2015: loss of £18.0m), as a result of significant ongoing investment in staff, technology and marketing, which is expected to continue in 2017.

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company 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). In making this assessment, the Directors have considered the performance of the Company and the provision of continuing financial support of Funding Circle Holdings Limited (“FCHL”), the immediate Parent of the Company, and its ability to provide such support.

Having made appropriate enquiries, the directors consider that the Company has the ability to remain in operation for the foreseeable future, as they have confirmed the continuing financial support and the ability to provide that support of Funding Circle Holdings Limited and have therefore continued to adopt the going concern basis in preparing financial statements.

Basis of preparation

The Company maintains its books and records in sterling (“£”) and presents its annual financial statements in conformity with United Kingdom laws and regulations.

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

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

The Company has made a presentational change by removing Cost of sales and reporting that as part of Operating expenses in the Statement of comprehensive income, as the management believes that the disclosure of expenses by nature is appropriate to the circumstances of the Company.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

1 Accounting policies (continued)

Immediate Parent Undertaking

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its Parent, Funding Circle Holdings Limited, a company incorporated in the United Kingdom.

Changes in accounting policy and disclosures

(a) Standards and amendments to existing standards and interpretations effective on or after 1 January 2016 adopted by the Company

No new standards or amendments to standards had any impact on the Company's financial position or performance nor the disclosures in these financial statements.

(b) New standards, amendments and interpretations issued but not effective for the financial period beginning 1 January 2016 and not early adopted

A number of new standards and amendments to standards and interpretations are issued but not yet mandatory for the financial year beginning 1 January 2016. None of these are expected to have a significant effect on the financial statements of the group or Parent except the following:

Standard / interpretation	Content	Applicable for financial years beginning on/after
IFRS 9	Financial instruments: Classification and measurement.	1 January 2018
IFRS 15	Revenue from contracts with customers.	1 January 2018
IFRS 16	Leases	1 January 2019

The directors are yet to assess IFRS 9, IFRS 15 and IFRS 16's full impact and intend to adopt these standards no later than the respective financial years detailed in the above table.

Foreign currency translation

Transactions in currencies other than the functional currency of the entity are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary assets and liabilities and those arising on retranslation are included within operating expenses in the period in which the difference arose.

Investments in subsidiaries

Investments held as fixed assets are stated at cost less any provision for impairment. Where the recoverable amount of the investment is less than the carrying amount, impairment is recognised.

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

1 Accounting policies (continued)

Revenue recognition

Revenue represents fees receivable from lenders and borrowers for the arranging of finance. Revenue earned from borrowers is classified as transaction fees and is recognised immediately once loans are fully funded on the marketplace, after the loans are accepted by the borrowers. Such fees are automatically deducted from the amount borrowed and are recognised at that point as the Company has the right to consideration.

Servicing revenue comprises an annualised fee representing a percentage of outstanding principal and is recognised upon repayments of loan parts by borrowers. Due to the conditions of the trade, there are no partially completed contracts on the balance sheet date and no advance payments from customers.

Revenue comprises the fair value of the consideration received or receivable in the ordinary course of the Company's activities. All revenue recorded in the financial statements is generated in the UK and sourced from financing transactions. All fees are calculated based on the above revenue recognition policy.

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	33.3% per annum
Furniture and fixtures	20-33.3% per annum

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 improvement is calculated using the straight line method over the lease term.

Intangible assets

Intangible assets with finite useful lives are amortised to profit or loss 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.

Computer Software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

1 Accounting policies (continued)

- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

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, which does not exceed eight years.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Rental income

Rental income from operating leases (net of any incentives given to the lessees) is recognised in other operating income on a straight-line basis over the lease term.

Interest Receivable

Interest receivable is recognised on an accrual basis within 'Interest income' in the statement of comprehensive income.

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

1 Accounting policies (continued)

Expenses

Expenses are recognised as an expense in the statement of comprehensive income in the period in which they are incurred (on an accruals basis).

Leases

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Pension obligations

The company operates a defined contribution pension scheme. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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 periods. Contributions payable to the company's pension scheme are charged to the income statement in the period to which they relate. The Company has no further payment obligations once the contributions have been paid.

Financial instruments

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables financial assets, and available-for sale financial assets as appropriate. The Company determines the classification of its financial assets at initial recognition. 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.

Financial assets are derecognised only when the contractual rights to the cash flows from the financial assets expire or the Company transfers substantially all risks and rewards of ownership.

Financial assets recognised in the statement of financial position as investments are classified as available-for-sale. They are recognised at fair value and subsequently measured at cost less provision for impairment as fair value cannot be reliably measured.

Financial assets recognised in the statement of financial position as trade and other receivables are classified as loans and receivables. They are recognised at fair value and subsequently measured at amortised cost less provision for impairment. A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

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.

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

1 Accounting policies (continued)

Cash and cash equivalents are also classified as loans and receivables. Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. The carrying amount of these assets approximates their fair value.

The Company assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence (such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the Statement of Comprehensive Income.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

Current and deferred tax

The tax expense for the period 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 year end date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially 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.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

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)

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- Loan due from and payable to related undertakings
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

Categorisation of financial assets and financial liabilities

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2016:

	Carried at amortised cost – Asset/(liabilities)		Carried at fair value	
	Carrying amount	Fair value	Based on market derived data	Based on individual valuation parameters
	£	£	£	£
Assets per statement of financial position				
Loans due from related undertakings	2,920,652	2,920,652	-	-
Trade and other receivables	4,983,680	4,983,680	-	-
Cash and cash equivalents	10,323,544	10,323,544	-	-
Receivables from related undertakings	695,870	695,870	-	-
	18,923,746	18,923,746	-	-
Liabilities per statement of financial position				
Trade and other payables	(4,321,104)	(4,321,104)	-	-
Loan payable to parent undertaking	(13,500,000)	(13,500,000)	-	-
Payables to related undertakings	(441,578)	(441,578)	-	-
	(18,262,682)	(18,262,682)	-	-

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

2 Financial risk management (continued)

The table shows the carrying amounts and fair values of financial assets and financial liabilities by category of financial instrument as at 31 December 2015:

	Carried at amortised cost – Asset/(liabilities)		Carried at fair value	
	Carrying amount	Fair value	Based on market derived data	Based on individual valuation parameters
	£	£	£	£
Assets per statement of financial position				
Loans due from related undertakings	1,367,515	1,367,515	-	-
Trade and other receivables	4,198,678	4,198,678	-	-
Cash and cash equivalents	9,567,445	9,567,445	-	-
Receivables from related undertakings	641,367	641,367	-	-
	<u>15,775,005</u>	<u>15,775,005</u>	<u>-</u>	<u>-</u>
Liabilities per statement of financial position				
Trade and other payables	(4,996,323)	(4,996,323)	-	-
Loan payable to parent undertaking	(11,000,000)	(11,000,000)	-	-
Payables to related undertakings	(118,537)	(118,537)	-	-
	<u>(16,114,860)</u>	<u>(16,114,860)</u>	<u>-</u>	<u>-</u>

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, trade and other payables, and loans to/from related parties. Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

Financial instruments measured at fair value

IFRS 7 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:

The fair value hierarchy has the following levels:

- 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.

No assets or liabilities were carried at fair value, in both the current and previous financial year.

**Notes forming part of the financial statements for the year ended 31 December 2016
(continued)****2 Financial risk management (continued)**

The fair value of financial instruments that are not traded in an active market (for example, current asset investments) 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Financial risk factors*Credit risk*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers 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 2016 £	31 December 2015 £
Trade and other receivables		
- Trade debtors	585,608	254,512
- Other debtors	718,900	239,753
- Prepayments and accrued income	1,198,924	847,944
- Rent deposit	2,480,248	2,856,470
- Receivables from related undertakings	695,870	641,367
Loans due from related undertakings	2,920,652	1,367,515
Cash and cash equivalents	<u>10,323,544</u>	<u>9,567,445</u>

The fair value of cash and cash equivalents at 31 December 2016 and 31 December 2015 approximates the carrying value. Further details regarding cash and cash equivalents can be found in note 24. Credit risk is mitigated as cash and cash equivalents are held with reputable institutions.

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.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

2 Financial risk management (continued)

The maturity analysis of financial instruments at 31 December 2016 and 31 December 2015 is as follows:

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
At 31 December 2016	£	£	£	£
Financial assets				
Trade and other receivables	1,614,590	3,369,090	-	-
Cash and cash equivalents	10,323,544	-	-	-
Amounts due from related undertakings	-	695,870	2,920,652	-
	<u>11,938,134</u>	<u>4,064,960</u>	<u>2,920,652</u>	<u>-</u>
Financial liabilities				
Trade and other payables	(1,964,614)	(2,356,490)	-	-
Amounts due to related undertakings	-	(441,578)	(13,500,000)	-
	<u>(1,964,614)</u>	<u>(2,798,068)</u>	<u>(13,500,000)</u>	<u>-</u>

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
At 31 December 2015	£	£	£	£
Financial assets				
Trade and other receivables	494,265	3,704,413	-	-
Cash and cash equivalents	9,567,445	-	-	-
Amounts due from related undertakings	-	641,367	1,367,515	-
	<u>10,061,709</u>	<u>4,345,781</u>	<u>1,367,515</u>	<u>-</u>
Financial liabilities				
Trade and other payables	(2,064,465)	(2,931,858)	-	-
Amounts due to related undertakings	-	(118,537)	(11,000,000)	-
	<u>(2,064,465)</u>	<u>(3,050,395)</u>	<u>(11,000,000)</u>	<u>-</u>

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's market risk arises from open position in interest bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

(a) Price risk

The Company is not exposed to market risk with respect to financial instruments as it does not hold any marketable securities.

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

2 Financial risk management (continued)

(b) Cash flow and fair value interest rate risk

The Company's interest rate risk is associated with cash and cash equivalent borrowings that bears interest at 3.5% above the base rate of the Bank of England from the Parent. This exposes the Company to cash flow interest rate risk.

The Company does not use interest rate swaps under which fixed interest liabilities are converted to variable rate or vice versa in order to hedge the fair value interest rate risk. In directors opinion significant movement in the Bank of England's base rate is unlikely in the mid-term and hence any impact of adverse movement in interest rate deemed immaterial.

(c) Sensitivity analysis

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the report date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed above, the Company does not have significant exposure to liquidity, cash flow or interest rate risk and therefore no sensitivity analysis for those risks has been disclosed.

Capital management

The Company considers its capital to comprise of its ordinary share capital and share premium less its accumulated retained losses.

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 shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company has achieved an increase of 65% in revenue from 2015. This increase was mainly as a result of the Company continuing to invest in growth, particularly in marketing, staffing and technology spend. In order to maintain its investments in the growth of the business, the Company has entered into a loan facility with the Parent to meet anticipated funding requirements (see note 19).

The directors monitor a number of KPI's at both the Company and the Parent level on a monthly basis including gross cash by geography; working capital requirements; cash subject to restrictions; various items of costs as a percentage of operating profit; EBITDA as a percentage of Revenue (earnings before interest, tax, depreciation and amortisation); and actuals performance against budget/forecast.

These internal measures indicate the performance of the business against budget/forecast and to confirm that the Company has adequate resources to meet its working capital requirements.

The Company is currently not subject to any externally imposed capital requirements, however will be subject to a capital regime from the point of full authorisation from the Financial Conduct Authority (Company currently has an interim permission). The Company has calculated and put in place adequate financial resources well in excess of its estimated financial resources requirements.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Dilapidation provision

The Statement of financial position includes a cumulative provision of £409,158 (2015: £294,000) in relation to Company's obligation to decommission the customisation of offices at the end of the tenancy of the leasehold premises. The provision recognised at the balance sheet date represents the best estimate of the expenditures required to settle the obligation in current prices provided by an independent firm providing design and building services.

The related asset is capitalised as part of property, plant and equipment and amortised over the lease term.

Due to the short tenancy period and low inflation rate, Management has not discounted the provision to take into account the timing of payment as it believes the impact of non-recognition of the annual inflation over remaining lease term would be immaterial to the financial statements.

Management has assessed the adequacy of the provision and confirmed that the amount is adequate to settle the dilapidation obligation under the leasehold contract.

Share based payments

The Parent operates a number of equity-settled, share based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options and shares) of the Parent. The fair value of the employee services received in exchange for the grant of the options and shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options and shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Company 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 Company revises its estimates 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 Parent issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium in the parent financial statements when the options are exercised (and recognised directly in equity in the Company financial statements).

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Share based payments (continued)

The grant by the Parent of options and shares over its equity instruments to the Company's employees is treated as capital contribution from the Parent. The fair value of employees services received, measured by reference to the grant date fair value, is recognised over the vesting period as an expense in the Statement of Comprehensive Income, with a corresponding credit as an increase in capital contribution from the Parent.

The national insurance contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as cash-settled transaction.

4 Segmental analysis

The Company's operations are carried out solely in the UK. All revenue is derived from the provision of its marketplace.

	31 December 2016 £	31 December 2015 £
Transaction fees	30,586,075	18,886,883
Servicing fees	8,420,140	4,818,994
Other revenue	271,792	97,521
	<u>39,278,007</u>	<u>23,803,398</u>

5 Other operating income

	31 December 2016 £	31 December 2015 £
Rental income	453,592	-
	<u>453,592</u>	<u>-</u>

The Company receives rental income on the subletting of unused office space.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

6 Operating expenses

	31 December 2016 £	31 December 2015 £
<i>Expenses by nature</i>		
Depreciation of property, plant and equipment	957,359	522,688
Amortisation of intangible assets	1,287,365	304,094
Loss on disposal of property, plant and equipment	2,092	366,642
Operating lease rentals		
- Other assets	93,707	56,546
- Land and buildings	2,972,979	2,002,279
Other premises costs	1,638,515	1,138,501
Employment costs (including directors' emoluments)	26,574,287	15,371,915
Auditors' remuneration for audit services (including expenses)	129,360	40,000
Audit-related assurance services	71,000	30,000
Foreign exchange losses	21,527	6,019
Other expenses	19,696,233	21,560,916
	53,444,424	41,399,600

7 Remuneration of key management personnel

	31 December 2016 £	31 December 2015 £
Wages and salaries	377,643	361,373

The directors are also the key management personnel of the Company. The aggregated emoluments for the highest paid director inclusive of employers national insurance contribution was £180,909 (2015: £182,787).

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

8 Employees

The average monthly number of employees (including directors, see note 8) during the year were:

	2016 Number	2015 Number
IT	59	66
Operations, support and administrative	253	144
	312	210

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

	31 December 2016 £	31 December 2015 £
Wages and salaries	19,013,130	11,574,616
National insurance costs	2,244,978	1,345,354
Pension costs	29,672	-
Share options granted to directors and employees	5,286,508	2,451,945
Total employee benefit expense	26,574,288	15,371,915

9 Finance income

	31 December 2016 £	31 December 2015 £
Interest on bank deposits	76,889	79,471
Interest on long-term loan facility to subsidiary undertaking	85,928	1,725
	162,817	81,196

During the financial year the company recognised an interest income of £50,772 (2015: £1,725) on amount drawn of £1,933,000 (2015: £462,000) under the long-term loan facility provided to Funding Circle Trustee Limited (see note 15).

During the financial year the company recognised an interest income of £35,155 (2015: £nil) on amount drawn of £900,000 (2015: £900,000) under the long-term loan facility provided to Funding Circle Property Finance Limited (see note 15).

10 Finance costs

During the financial year the company recognised an interest payable of £409,390 (2015: £491,014) on amounts drawn under the long-term loan facility provided by the Parent (see note 19).

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

11 Income tax

The Company is subject to all taxes applicable to a commercial company in the United Kingdom. The UK business profits of the Company are subject to UK income tax at the standard corporation tax rate of 20.0% (2015: 20.25%).

	31 December 2016 £	31 December 2015 £
UK income tax		
Current tax on profits for the year	-	-
Adjustment in respect of prior years	(622,308)	-
Total current tax	(622,308)	-
Tax per income statement	(622,308)	-

Factors affecting the tax charge for the year:

Loss on operating activities before tax	(13,959,398)	(18,006,020)
Taxation on loss on operating activities at 20.0% (2015: 20.25%)	(2,791,880)	(3,645,602)
<i>Effects of:</i>		
Adjustments in respect of prior years	(622,308)	-
Non-deductible expenses	1,159,544	694,749
Income not taxable	-	(23,482)
Transfer pricing adjustments	(186,552)	-
Share options	(64,381)	-
Temporary differences not recognised	1,883,269	2,974,335
Tax credit for the year	(622,308)	-

During 2016, the Company received a tax credit of £622,308 (2015: £nil) in respect of its R&D claims for prior years. Accordingly, the amount is reflected as a tax credit in the statement of total comprehensive income.

The Company has unrelieved tax losses of £42,430,006 (2015: £33,130,684) that are available for offset against future taxable profits. The Company has not recognised a deferred tax asset in respect of these losses as in the opinion of the directors there is not sufficient visibility of suitable profits being generated to utilise these losses.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

12 Intangible assets

	Capitalised Development costs	Computer software	Total
	£	£	£
Cost			
At 1 January 2015	94,320	134,894	229,214
Additions	2,249,251	25,184	2,274,435
At 31 December 2015	2,343,571	160,078	2,503,649
At 1 January 2016	2,343,571	160,078	2,503,649
Additions	5,022,446	30,990	5,053,436
At 31 December 2016	7,366,017	191,068	7,557,085
Accumulated Amortisation			
At 1 January 2015	51,090	81,395	132,485
Charge for the year	253,631	50,463	304,094
At 31 December 2015	304,721	131,858	436,579
At 1 January 2016	304,721	131,858	436,579
Charge for the year	1,270,121	17,244	1,287,365
At 31 December 2016	1,574,842	149,102	1,723,944
Carrying amount			
At 31 December 2016	5,791,175	41,966	5,833,141
At 31 December 2015	2,038,850	28,220	2,067,070

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

13 Property, plant and equipment

	Leasehold Improvements £	Computer equipment £	Furniture and fixtures £	Total £
Cost				
At 1 January 2015	637,030	580,126	149,681	1,366,837
Additions	2,781,004	587,690	604,994	3,973,688
Disposals	(643,883)	(20,070)	(13,204)	(677,157)
At 31 December 2015	2,774,151	1,147,746	741,471	4,663,368
At 1 January 2016	2,774,151	1,147,746	741,471	4,663,368
Additions	482,762	229,690	180,181	892,633
Disposals	-	(11,863)	-	(11,863)
At 31 December 2016	3,256,913	1,365,573	921,652	5,544,138
Accumulated depreciation				
At 1 January 2015	212,165	215,255	69,281	496,701
Charge for the year	157,246	253,353	112,089	522,688
Elimination on disposals	(286,768)	(12,261)	(10,426)	(309,455)
At 31 December 2015	82,643	456,347	170,944	709,934
At 1 January 2016	82,643	456,347	170,944	709,934
Charge for the year	319,479	369,248	268,632	957,359
Elimination on disposals	-	(9,772)	-	(9,772)
At 31 December 2016	402,122	815,823	439,576	1,657,521
Carrying amount				
At 31 December 2016	2,854,791	549,750	482,076	3,886,617
At 31 December 2015	2,691,508	691,399	570,527	3,953,434

The Company does not have any fixed assets under finance lease.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

14 Investments in subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost, which is the fair value of the consideration paid.

The Company's share of the results of its subsidiaries, all of which are unlisted, and its net assets, are as follows:

Name	Country of Incorporation	Net Liabilities £	Revenues £	Loss £	Interest held %
Funding Circle Trustee Limited	England & Wales	(1,828,530)	-	(888,031)	100
Funding Circle Property Finance Limited	England & Wales	(44,864)	-	(44,730)	100
Funding Circle Asset Finance Limited	England & Wales	(1,552)	-	(2,615)	100
Funding Circle Solutions Limited	England & Wales	(165)	-	(66)	100

The registered address of the above subsidiaries is 71 Queen Victoria Street, London, EC4V 4AY.

15 Loans due from subsidiary undertakings

	31 December 2016 £	31 December 2015 £
Funding Circle Property Finance Limited	935,155	903,790
Funding Circle Trustee Limited	1,985,497	463,725
	<u>2,920,652</u>	<u>1,367,515</u>

The Company has unsecured sterling term loan facilities for £2,000,000 and £3,000,000 with its subsidiaries Funding Circle Property Finance Limited (FCPFL) and Funding Circle Trustee Limited (FCTL) respectively. Under the terms of the loan agreements, any drawn amount under the facilities bears interest at 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facilities term of 5 years on 14th December 2020.

At the year-end, FCPFL and FCTL have drawn down £900,000 and £1,933,000 respectively. Total interest income of £35,155 in relation to FCPFL and £50,772 in relation to FCTL funding has been recognised in the income statement. The carrying amount of these loans approximates to its fair value.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

16 Trade and other receivables

	31 December 2016 £	31 December 2015 £
Trade receivables	585,608	254,512
Other receivables	718,900	239,753
Prepayments and accrued income	1,198,924	847,943
Rent deposit	2,480,248	2,856,469
Receivables from related undertakings	695,870	641,367
	5,679,550	4,840,044

Receivables from related undertakings are interest free and repayable on demand.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above.

17 Trade and other payables

	31 December 2016 £	31 December 2015 £
Trade payables	603,488	1,167,450
Taxes and social security costs	975,564	708,042
Other creditors	385,562	188,973
Accruals and deferred income	2,356,490	2,931,858
Payables to related undertakings	441,578	118,537
	4,762,682	5,114,860

Payables to related undertakings are interest free and repayable on demand.

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

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

18 Long-term Provisions

	Dilapidation £
At 1 January 2015	-
<i>Charge to income statement:</i>	
Provision relating to new premises	294,000
At 31 December 2015	<u>294,000</u>
<i>Charge to income statement:</i>	
Provision relating to new floor of premises	115,158
At 31 December 2016	<u><u>409,158</u></u>

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 reverse in 2025.

During the current financial year, the Company expanded its occupation of the leasehold premises onto an additional floor, in respect of which it also has an obligation to restore the property to its original state.

19 Amounts owed to Parent undertaking

The Company has entered into a loan facility agreement with the Parent. Under the terms of the agreement, the Parent will provide an unsecured sterling term loan facility of a total principal amount not exceeding £20,000,000 (twenty million pounds) to the Company. Any drawn amount under the facility bears interest at 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 5 years on 23rd November 2020.

At the year-end the Company has drawn down £13,500,000 (2015: £11,000,000) under the facility agreement. Total interest charges of £409,390 (2015: £491,014) have been recognised in the income statement. The carrying amount of this loan approximates to its fair value.

**Notes forming part of the financial statements for the year ended 31 December 2016
(continued)**

	31 December	31 December
Share capital	2016	2015
	£	£
<i>Authorised</i>		
Ordinary shares of £1 each:	Unlimited	Unlimited
<i>Called up, allotted and fully paid</i>		
Ordinary shares of £1 each: 11,931,089	11,931,089	11,931,089
(2015: 11,931,089) issued		
	31 December	31 December
Share premium	2016	2015
	£	£
Balance at 1 January	119,302	119,302
Balance at 31 December	119,302	119,302

	31 December 2016 £	31 December 2015 £
Balance at 1 January	31,371,678	5,326,911
Capital contribution	12,635,597	23,592,822
Employee share schemes – value of employee services	5,286,508	2,451,945
Balance at 31 December	49,293,783	31,371,678

During the financial year the company received funding of £15,000,000 (2015: £23,000,000) from its Parent to meet its working capital requirements. The funding was initially received under the loan facility agreement from parent. During the year, the Parent waived the amount drawn of £12,635,597 (2015: £23,592,822) including accrued interest due under the facility. Therefore, the amount has been recognised as a capital contribution from the Parent and is included in the Company's equity at the balance sheet date.

35

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

22 Share based payment

The Parent operates share schemes for all employees of the Group. The terms of the main current schemes from which the Company's employees benefit are as follows:

EMI Options

Prior to June 2014, the Parent issued options to UK employees under the EMI Options scheme. Since then, the Company is not eligible to issue under the scheme.

Unapproved Options

The Parent has an unapproved option scheme for all employees of the Group. In accordance with standard vesting terms, the full award will vest four years after the vesting start date, with 25% vesting on the first anniversary of the vesting date and 6.25% every three months thereafter. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

ESS Shares with 'shadow' Unapproved Options

To subscribe for the ESS Shares, employees have to give up certain employment rights. ESS shares are an up-front award of A or C ordinary shares with a nominal value of £0.00001 per share where the ability to receive dividends and a capital return from the shares is conditional on the achievement of a performance target (namely, the growth of the enterprise value of the business beyond a hurdle). According to the terms and conditions, the performance target differs depending on the underlying share.

If this performance target is met, the participants will profit from the whole of the value of the business, not just the growth from the date of the award, on the same basis as the ordinary shares.

The ESS Shares also have a right of redemption – the employee has the option to redeem those shares for a fixed cash amount in the first three months post grant date. Note that the cash amount received depends on the number of ESS Shares granted.

The ESS Shares are each issued in conjunction with a 'shadow' Unapproved Option. The Unapproved Option can be exercised if the relevant enterprise value hurdle is not met upon an exit event. Both the ESS Shares and the 'shadow' Unapproved Options vest according to the Company's "Standard Vesting" terms, as discussed in the description of Unapproved Options above.

Growth Shares with 'shadow' Unapproved Options

Growth Shares are an up-front award of B or D ordinary shares with a nominal value of £0.00001 per share where the ability to receive dividends and a capital return from the shares is conditional on the achievement of a performance target (namely, the growth of the enterprise value of the business beyond a hurdle). According to the terms and conditions, the performance target differs depending on the underlying share.

If this performance target is met, the participants will profit from the whole of the value of the business, not just the growth from the date of the award, on the same basis as the ordinary shares.

The Growth Shares are each issued in conjunction with a 'shadow' Unapproved Option. The Unapproved Option can be exercised if the applicable enterprise value hurdle is not met upon an exit event. Both the Growth Shares and the 'shadow' Unapproved Options vest according to the Company's "Standard Vesting", as discussed in the description of Unapproved Options above.

Included in operating expenses is a charge for share-based payments of £5,286,508 (2015: £2,451,945) that arises from transactions accounted for as equity-settled share-based payment transactions.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

22 Share-based payment (continued)

Details of movements in the share schemes during the year are as follows:

	EMI Options		Unapproved Options		ESS Shares		Growth Shares		Total	
	Number and WAEP ¹		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2015	5,368,000	0.027	1,349,900	0.055	566,000	0.177	-	-	7,283,900	0.044
Granted during the period	-	-	1,277,813	0.288	4,563,500	0.284	1,150,000	0.238	6,991,313	0.277
Exercised during the period	(915,500)	0.027	-	-	-	-	-	-	(915,500)	0.027
Forfeited during the period	(84,550)	0.027	(18,875)	0.221	(49,500)	0.177	-	-	(152,925)	0.099
Outstanding at 31 December 2015	4,367,950	0.027	2,608,838	0.168	5,080,000	0.273	1,150,000	0.238	13,206,788	0.168
Outstanding at 1 January 2016	4,367,950	0.027	2,608,838	0.168	5,080,000	0.273	1,150,000	0.238	13,206,788	0.168
Granted during the period	-	-	1,102,932	0.390	4,763,436	0.390	-	-	5,866,368	0.390
Exercised during the period	(609,015)	0.027	(240,187)	0.043	-	-	-	-	(849,202)	0.032
Forfeited during the period	(110,398)	0.027	(254,554)	0.342	(2,546,211)	0.317	(68,750)	0.317	(2,979,913)	0.309
Outstanding at 31 December 2016	3,648,537	0.027	3,217,029	0.240	7,297,225	0.334	1,081,250	0.233	15,244,041	0.233

1. Weighted average exercise price

Out of the 15,244,041 outstanding options (2015: 13,206,788), 7,491,108 options (2015: 9,810,750) were exercisable at a weighted average price of £0.150 (2015: £0.042)

Options exercised in 2016 resulted in 849,202 shares (2015: 915,500 shares) being issued at a weighted average price of £0.032 each (2015: £0.027 each).

No transaction costs were incurred during both current and previous financial year on the exercise of share options.

The following table summarises information about the share awards outstanding at 31 December 2016:

	EMI Options		Unapproved Options		ESS Shares		Growth Shares		Total	
Range of exercise prices	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
£0.008 - £0.043	3,648,537	6.1	571,400	4.6	-	-	-	-	4,219,937	5.9
£0.043 - £0.279	-	-	213,842	8.1	1,439,625	7.8	650,000	8.0	2,303,467	7.9
£0.279- £0.390	-	-	2,431,787	9.2	5,857,600	8.8	431,250	8.6	8,720,637	8.9
	3,648,537	6.1	3,217,029	8.3	7,297,225	8.6	1,081,250	8.3	15,244,041	7.9

2. Weighted average remaining contractual life

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

22 Share-based payment (continued)

The following table summarises information about the share awards outstanding at 31 December 2015:

Range of exercise prices	EMI Options		Unapproved Options		ESS Shares		Growth Shares		Total	
	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
£0.0272	4,367,950	4.6	1,099,900	4.8	-	-	-	-	5,467,850	4.7
£0.0272- £0.2785	-	-	504,125	9.0	1,606,500	9.0	650,000	9.0	2,760,625	9.0
£0.2785 - £0.3172	-	-	1,004,813	9.7	3,473,500	9.7	500,000	9.7	4,978,313	9.7
	4,367,950	4.6	2,608,838	7.5	5,080,000	9.5	1,150,000	9.3	13,206,788	7.5

Unapproved Options Scheme

The weighted average fair values of options granted under the Unapproved Options Scheme were £0.06 (2015: £0.22) per option respectively. These values were determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

	2016	2015
Share price (various times during the year)	£0.390	£0.162, £0.317 and £0.390
Exercise price at/(between)	£0.390	£0.176 and £0.317
Expected life	4 years	4 years
Expected volatility	40%	40%
Risk-free interest rate (between)	0.01% and 0.76%	0.30% and 1.40%
Dividend yield	Nil	Nil

ESS Shares and Growth Shares with 'shadow' Unapproved Options

The weighted average fair values of equity-settled options granted under the ESS Shares and Growth Shares with 'shadow' Unapproved Options were £1.78 and £nil (2015: £1.21 and £1.03) per option respectively. These values were determined using the Monte Carlo simulation model. The significant inputs into the model are as follows:

	2016	2015
Exercise price at/(between)	£0.390	£0.176 and £0.317
Expected life	1 year	2 years
Expected volatility	40%	40%
Risk-free interest rate (between)	0.01% and 0.76%	0.30% and 1.40%
Dividend yield	Nil	Nil

In addition to above, the Company also considered the enterprise values relevant at the grant dates including assumption around a future liquidity event of the Company.

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

22 Share-based payment (continued)

Due to the Parent being an unlisted entity, the expected volatility has been determined by calculating the historical volatility of the share returns of a group of listed entities and use it as a proxy for the expected volatility of the Parent's share returns as at grant date.

Expected life was based on the contractual life of the options and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

23 Accumulated losses

	£
Balance at 1 January 2015	(20,029,396)
Loss and total comprehensive loss for the year	(18,006,020)
Balance at 31 December 2015	(38,035,416)
Loss and total comprehensive loss for the year	(13,337,090)
Balance as at 31 December 2016	(51,372,506)

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

24 Notes to the cash flow statement

Cash generated from operations

	31 December 2016 £	31 December 2015 £
Loss before tax for the year	(13,959,398)	(18,006,020)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	957,359	522,688
Amortisation of intangible assets	1,287,365	304,094
Loss on disposal of property, plant and equipment	2,092	366,642
Movement in dilapidation provision	115,158	(115,980)
Non-cash employee benefits expense – share based payments	5,286,508	2,451,945
Interest payable waived	-	592,822
Interest received	(162,817)	(81,195)
Finance costs	409,390	491,014
Foreign exchange losses	-	6,019
Tax credit received	622,308	-
<i>Changes in working capital:</i>		
Movement in trade and other receivables	(839,505)	(4,753,096)
Movement in trade and other payables	(622,181)	2,856,276
Net cash used in operations	<u>(6,903,721)</u>	<u>(15,364,791)</u>

Cash and cash equivalents

	31 December 2016 £	31 December 2015 £
Cash and bank balances	<u>10,323,544</u>	<u>9,567,445</u>
Balance at 31 December	<u>10,323,544</u>	<u>9,567,445</u>

The cash and cash equivalents balance is made up fully of cash and bank deposits. The carrying amount of these assets is approximately equal to their fair value.

Analysis of changes in net funds

	1 January 2016 £	Cash flow £	31 December 2016 £
Cash and bank balances	9,567,445	756,099	10,323,544
Total net funds	<u>9,567,445</u>	<u>756,099</u>	<u>10,323,544</u>

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

25 Operating lease arrangements

	31 December 2016 £	31 December 2015 £
Lease payments under operating leases recognised as an expense in the year	3,066,686	2,058,825
Balance at 31 December	3,066,686	2,058,825

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	31 December 2016 £	31 December 2015 £
Within one year	2,821,986	2,963,798
In the second to fifth year inclusive	11,253,454	11,850,060
After five years	9,070,711	12,887,805
Total at year end	23,146,151	27,701,663

Operating lease payments represent rentals payable by the Company for its office properties and plant and machinery rental.

26 Dividends per share

No dividends were declared and paid during the current or previous financial year.

27 Related party transactions

During the year, the Company received funds from the Parent to the value of £15,000,000 (2015: £23,000,000) under the facility agreement. Total interest charges of £409,390 (2015: £491,014) have been recognised in the income statement on drawdowns under the facility agreement (see note 19).

During the year, the Parent agreed to waive a loan to the Company to the value of £12,635,597 (2015: £23,592,822), inclusive of accrued interest. The Parent also made payments for an amounts of £76,181 (2015: £32,403) to third parties on behalf of the Company.

Further, Funding Circle USA (an affiliate company owned by the Parent) made payments of £26,933 (2015: £93,440) to third parties on behalf of the Company.

During the year, the Company made cash transfers to the value of £1,471,000 (2015: £nil) to FCTL under the facility agreements signed in December 2015. The Company has recognised the total interest income of £50,772 (2015: £1,725) and £35,155 (2015: £nil) in respect of balances owing under the corresponding facility agreements with FCTL and FCPFL respectively (see note 15).

FUNDING CIRCLE LTD

Notes forming part of the financial statements for the year ended 31 December 2016 (continued)

27 Related party transactions (continued)

During the year, the Company paid expenses for an amounts of £29,558 (2015: £nil), £9,605 (2015: £33,800) and £3,600 (2015: £nil) on behalf of Funding Circle CE GmbH, Funding Circle Deutschland GmbH and Funding Circle Nederland BV respectively. Intercompany balance of £33,800 owed by Funding Circle Deutschland GmbH have been reallocated and recognised as amounts owed by Funding Circle CE GmbH.

Amounts included in short-term receivables and payables are interest free and repayable on demand.

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties		Amounts owed to related parties	
	2016	2015	2016	2015
	£	£	£	£
<i>Short-term payables/receivables:</i>				
Funding Circle Trustee Limited	440,209	431,629	-	-
Funding Circle Asset Finance Limited	1,603	1,603	-	-
Funding Circle Property Finance Limited	177,295	178,025	-	-
Funding Circle Solutions Limited	200	100	-	-
Funding Circle USA Inc	-	-	60,504	87,438
Funding Circle Holdings Limited	-	-	381,074	31,099
Funding Circle CE GmbH	63,358	-	-	-
Funding Circle Deutschland GmbH	9,605	33,800	-	-
Funding Circle Nederland BV	3,600	-	-	-
<i>Inter-company loans:</i>				
Funding Circle Holdings Limited	-	-	13,500,000	11,000,000
Funding Circle Property Finance Limited	935,155	900,000	-	-
Funding Circle Trustee Limited	1,985,497	463,725	-	-
	3,616,522	2,008,882	13,941,578	11,118,537

28 Controlling party

The directors regard Funding Circle Holdings Limited, a company incorporated in the United Kingdom and registered in England and Wales, as the immediate and ultimate parent company. The Company does not have a single ultimate controlling party. The Parent prepares consolidated financial statements for the group which can be obtained from Companies House.

29 Post balance sheet events

Since year end, management has taken a decision to focus on the core small business lending product in the UK and to scale down new property finance lending with all such lending expected to cease by mid-2018.