FUNDING CIRCLE LTD

Annual Report and Financial Statements

For the Year Ended

31 December 2019

Registered number: 06968588

Contents

FUNDING CIRCLE LTD

Officers and professional advisers

Directors

A D Learoyd
M King
J Le Luel
L Jacobs

Secretary

C Hawkins

Registered office

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Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
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United Kingdom

Bankers

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Strategic report for the year ended 31 December 2019

The Directors present their strategic report on Funding Circle Ltd (the "Company") for the year ended 31 December 2019. In preparing this strategic report, the Directors have complied with section 414c of the Companies Act 2006.

Principal Activities

The Company is the leading lending platform in the UK where SME ("Small or Medium-sized Enterprise") businesses borrow directly from a diverse range of investors, including individuals, institutions and the Government. The platform directly connects people and organisations who want to lend, with vetted, established SME businesses who want to borrow. The platform also provides the opportunity for individual investors to trade existing loans in a secondary market.

During 2019 the business model evolved and the Company now plays a role in an Asset Backed Securitisation ("ABS") programme by providing funding, in the form of a subordinated loan, to the warehouse entity Great Trinity Lending 1 DAC ("GTL") which holds underlying investments in SME loans. Upon securitisation of such loans into bonds, the Company is required by regulation to hold a minimum investment of 5% of bonds issued.

Further details on the Company's business model are provided on pages 10 to 19 of the 2019 Annual Report and Accounts of the ultimate parent undertaking Funding Circle Holdings plc ("FCH" or the "Parent" and, together with the Company and other members of its group, the "Group").

General Business Review

Despite a challenging political and economic environment in the UK in 2019, the Company continued to build on our leadership position. Net lending to SMEs through our platform was regularly higher than many of the major banks further highlighting the impact investors can have on the economy when they use Funding Circle.

The business also launched a number of new investor products, including an ABS programme and Private Fund. By deepening and diversifying our investor base, the Company is growing the universe of investors on the platform and ultimately helping more SMEs.

The Company adopted an approach which resulted in net income growth in 2019 whilst setting a clear path to profitability, with a specific focus on investment in people and technology.

Results

The results of the Company, as set out on page 12, show a loss for the year of £24.2 million (2018 restated: £13.4 million) on net income up £12.1 million to £105.7 million (2018: £93.6 million), representing growth of 12%. Operating expenses rose £21.5 million to £129.0 million (2018 restated: £107.5 million) including an increase of £12.8 million in transfer pricing charges to £18.5 million (2018: £5.7 million).

Funding Circle Group operates across the US, UK, Netherlands and Germany, which results in various cross-border transactions arising between Group companies. In line with OECD guidelines, the Company bases its transfer pricing policy on the "arm's length" principle. The transfer pricing policies that the Company participates in result in a higher transfer pricing charge at present as its underlying profitability improves whilst the other companies remain loss making.

The Company recognised net investment income from its sub-ordinated loan provided to GTL as part of the new ABS programme and on its investment in bonds retained by the Company. Interest earned on the underlying investment in SME loans and interest paid on bank borrowings are recorded within GTL, a special purpose vehicle controlled by the Company.

As at 31 December 2019, the Company had net assets of £67.9 million (2018 restated: £16.5 million). Throughout the financial year, the Company received £70.6 million in capital contributions from FCH, the primary purpose of the funds received were to inject funding into GTL in the form of the sub-ordinated loan referenced above.

In 2019, loans under management rose by 17% to £2,583 million whilst originations grew by 2% to £1,556 million. Originations from existing customers, who require less marketing investment and are therefore more profitable to the business, grew by 4% to £652 million (42% of total originations) as the business continued to build its reputation amongst small business owners as the leading way to access finance in the UK. In total, the Company delivered net income (also referred to as revenue) growth of 13% to £105.7 million in 2019.

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

Strategic report for the year ended 31 December 2019 (continued)

In June 2019, the UK business launched a UK Private Fund raising initial lending commitments from the Merseyside Pension Fund. The overall intention is to raise more than £200 million over the next few years. The UK Private Fund invests in UK SME loans and therefore directly contributes to the Company's transaction fees and ongoing servicing fees.

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

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

In December, the Company completed the initial build of its instant decision lending platform. This will drive superior customer experience and competitive advantage, providing instant loan decisions in just a few minutes, streamlining the user experience and providing swift access to funds. The platform includes historical data built up over the last ten years, including more than 1 million loan applications and our own proprietary data lake containing data on 26 million businesses and 2 billion data points.

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

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

Analysis of Key Performance Indicators

The Company's key financial performance indicators during the year were as follows:

	2019	2018 (Restated)
	£m	£m
Loans under Management	**2,583**	2,208
Originations	**1,556**	1,531
Net income	**105.7**	93.6
Loss for the year	**(24.2)**	(13.4)

Adoption of IFRS 16

From 1 January 2019, the Company adopted the new leasing standard (IFRS 16) retrospectively. The impact was to recognise a right to use asset and a lease liability. The adoption resulted in an increase to 2018 operating loss of £0.3 million.

COVID-19

Since 31 December 2019, macroeconomic conditions have changed in the UK as a result of the COVID-19 outbreak. The Company was unaffected in the first two months of the year. However, from the second half of March 2020 most UK businesses, including the Company, have been affected by COVID-19.

In direct response to COVID-19, the Company implemented a number of actions to protect its people and its customers. It swiftly transitioned all of its teams to working from home with minimal disruption to its business. The Company introduced a number of measures to protect investor returns, including actions on forbearance to help customers in difficulty and implemented cost control measures to reduce marketing and operational costs.

The Government has introduced a number of measures designed to support SME businesses including funding, tax payment holidays and grants. It is not yet known how, or when, government intervention measures will stabilise financial markets and protect SME businesses. This has created a significant degree of uncertainty for both investors and SMEs alike.

In April 2020, the Company was accredited to join the British Business Bank's Coronavirus Business Interruption Loans Scheme ("CBILS") to distribute loans with an 80% Government guarantee to small businesses. CBILS loans will be funded

Strategic report for the year ended 31 December 2019 (continued)

by the Company and a combination of new and existing institutional investors. It is anticipated that all lending will go through CBILS for an extended period of time and, as a result, all non-CBILS lending from retail and institutional investors is being paused to concentrate on supporting the Government's SME stimulus programme.

It is too early to predict how the Government's measures will impact on longer term investor or borrower behaviour or on the financial performance of the SME loans which the Company services.

The Company introduced new funding products in 2019 and carries the majority of the associated financial investments at fair value. It is expected that the value of these investments will be impacted during the crisis period and potentially thereafter. However, at this stage it is not possible to adequately quantify either the short or longer term impact until more data is available and there is more clarity on the impact respective government initiatives will have on the post COVID-19 economy. The exposure of the Company's balance sheet to potential underperformance of the underlying SME loans is described in note 26.

Section 172(1) statement

The Directors recognise that they have a duty under section 172 of the Companies Act 2006 ("Act") to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard, amongst other matters, to the factors set out in section 172(1) of the Act.

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

The Company's key stakeholders are its people, its borrowers, the investors in its loans, the communities in which it operates, the shareholders of the Parent company and its regulators (including, in particular, the FCA). The views of, and the impact of the Company's activities on, those stakeholders are an important consideration for the Directors when making relevant decisions.

During 2019 the Board received information to help the Directors understand the interests and views of the Company's key stakeholders and other relevant factors (including those set out in section 172(1) of the Act) when making decisions. This information was distributed in a range of different formats including in reports and presentations on the Company's financial and operational performance, key risks and the outcomes of specific pieces of engagement (for example, the results of customer satisfaction surveys, retail investor feedback and engagement with the FCA). As a result of this the Board has had an overview of engagement with the Company's stakeholders and other relevant factors which allows the Directors to understand the nature of the stakeholders' concerns and to comply with their section 172 duty to promote success of the Company.

The approach taken by the Board in relation to the changes made to the secondary loan sale mechanics provides a good example of how the Directors have had regard to the matters set out in section 172(1)(a)-(f) when discharging their section 172 duty, and the effect of that on decisions taken by the Board. The Board reviewed and approved the launch of the new selling tool designed to improve the Company's retail investors' ability to access their funds more quickly and more regularly. In making their decision, the Directors carefully considered the impact on retail investors, including taking into account retail investor feedback, with a focus on ensuring that the changes would improve their lending experience and were equitable as between investors. The Board also reviewed the results of the consultation with the FCA in respect of these changes.

While the Board engages directly with certain stakeholder groups or on certain issues, this is done in line with similar engagement practice that takes place at a Group level. For details on some of the engagement that takes place with the Company's stakeholders so as to enable the Directors to understand the issues to which they must have regard please see pages 56 to 60 of the Funding Circle Holdings plc Annual Report for the year ended 31 December 2019.

Strategic report for the year ended 31 December 2019 (continued)

Principal Risks and Uncertainties

The principal risks and uncertainties that the Company faces include:

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

These risks and uncertainties are integrated with the principal risks and uncertainties of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed on pages 42 to 47 of the 2019 Annual Report and Accounts of the ultimate parent undertaking Funding Circle Holdings plc.

Whilst not specifically called out as a separate principal risk, the COVID-19 pandemic crystallises a number of the above principal risks into one and, coupled with the Company being unable to currently operate directly from its London office, result in all of the above risks becoming heightened.

Further details on the risks that COVID-19 has on the Company's balance sheet are shown in note 26. At this stage it is too early to predict the likely impact on SME loan performance and therefore the Company cannot reliably estimate the impact on its balance sheet exposures.

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 plc, a company registered in England and Wales and the immediate parent company of the Company (the "Parent"), 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 FCH and have therefore continued to adopt the going concern basis in preparing financial statements.

Approved by the Board and signed on its behalf by

L Jacobs 22/04/2020 21:39
Director

22 April 2020

Report of the Directors for the year ended 31 December 2019

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 2019. 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 plc in February 2010.

Directors

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

A D Learoyd
J Meekings (resigned 30 December 2019)
E Wray (resigned 7 April 2020)
M King
S Glithero (resigned 7 April 2020)
J Le Luel (appointed 8 October 2019)
L Jacobs (appointed 23 October 2019)

Insurance and indemnities

The Parent maintains appropriate insurance to cover Directors' and Officers' liability for itself and its subsidiaries (including the Company). In addition the Parent indemnifies each Director of the Parent (some of whom are also Directors of the Company) 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 section 234 of the Companies Act 2006.

Financial Risk Management

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

Stakeholder engagement

The Strategic Report (page 5) sets out details of the Company's stakeholder engagement, and the effect of such engagement, in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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 on pages 3 to 6.

Employees

The Directors recognise that the quality, commitment and motivation of staff are a key element in the success of the Company. Employees are able to share in this success through share options in the Parent Company and the Company encourages its employees to develop their skills through training and continued professional development.

It is the policy of the Company to provide employment on an equal basis irrespective of gender, sexual orientation, marital or civil partner status, gender reassignment, race, colour, nationality, ethnic or national origin, religion or belief, disability or age.

Report of the Directors for the year ended 31 December 2019 (continued)

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Company gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

Research and development

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

External branches

The Company has subsidiaries in the United Kingdom. The Parent has subsidiaries in the United Kingdom (not only the Company and its subsidiaries), the United States of America, Canada, Germany, Spain and the Netherlands but the Group had no registered external branches during the reporting period or prior year.

Independent Auditors

PricewaterhouseCoopers LLP (the "Auditors") has confirmed its willingness to continue in 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 ought to have taken as a Director in order to make himself 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 Companies Act 2006.

Approved by the Board and signed on its behalf by

L Jacobs 22/04/2020 21:40
Director
71 Queen Victoria Street,
London
EC4V 4AY

22 April 2020

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 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 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.

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.

Independent auditors' report to the members of Funding Circle Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Funding Circle Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2019; the Statement of comprehensive income, the Statement of changes in equity, the Statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

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

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.

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

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statements of Directors' responsibilities in respect of the financial statements set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nick Morrison

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

Statement of comprehensive income for the year ended 31 December 2019

	Note	2019	2018 (restated)
		£m	£m
Transaction fees		**79.6**	74.7
Servicing fees		**23.8**	18.8
Net investment income		**1.4**	-
- Investment income		*1.9*	-
- Investment expense		*(0.1)*	-
- Fair value (losses)/gains		*(0.4)*	-
Other fees		**0.9**	0.1
Net income		**105.7**	93.6
Operating expenses	4	**(129.0)**	(107.5)
Operating loss		**(23.3)**	(13.9)
Finance income	6	**0.4**	0.2
Finance costs	7	**(0.8)**	(1.1)
Loss before taxation		**(23.7)**	(14.8)
Income tax	8	**(0.5)**	1.4
Loss for the year and total comprehensive loss		**(24.2)**	(13.4)
Loss and total comprehensive loss attributable to:			
Owners of the Parent		**(24.2)**	(13.4)

All amounts relate to continuing activities.

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

The notes on pages 16 to 58 form part of these financial statements.

Balance sheet as at 31 December 2019

	Note	2019 £m	2018 (restated) £m
Non-current assets			
Intangible assets	9	**13.2**	11.1
Property, plant and equipment	10	**15.5**	17.5
Investment in bonds	2	**3.8**	-
Investment in subsidiaries	11	**0.5**	-
Loans due from subsidiary undertakings	12	**36.1**	2.1
		69.1	30.7
Current assets			
Trade and other receivables	13	**11.0**	12.2
Investment in bonds	2	**18.2**	-
Cash and cash equivalents	21	**14.8**	10.8
		44.0	23.0
Total assets		**113.1**	53.7
Current liabilities			
Trade and other payables	14	**28.5**	16.5
Lease liabilities	10	**3.6**	3.4
		32.1	19.9
Non-current liabilities			
Provisions	15	**0.7**	0.6
Lease liabilities	10	**12.4**	15.2
Loan payable to Parent undertaking	16	-	1.5
		13.1	17.3
Total liabilities		**45.2**	37.2
Equity			
Share capital	17	**11.9**	11.9
Share premium account	17	**0.1**	0.1
Capital reserve	18	**146.1**	70.5
Accumulated losses	20	**(90.2)**	(66.0)
Total equity		**67.9**	16.5
Total equity and liabilities		**113.1**	53.7

The financial statements on pages 12 to 58 were approved by the Board and authorised for issue on 22 April 2020. They were signed on its behalf by:

22/04/2020 21:41

L Jacobs
Director

Company registration number 06968588

The notes on pages 16 to 58 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2019

	Note	Share capital	Capital Reserve	Share premium	Accumulated losses	Total equity
		£m	£m	£m	£m	£m
Balance at 1 January 2018 as previously reported		**11.9**	**52.8**	**0.1**	**(51.8)**	**13.0**
Impact of change in accounting policy		-	-	-	(0.8)	(0.8)
Restated balance at 1 January 2018		**11.9**	**52.8**	**0.1**	**(52.6)**	**12.2**
Loss and total comprehensive loss for the year	20	-	-	-	(13.4)	(13.4)
Capital contribution	18	-	14.6	-	-	14.6
Employee share schemes – value of employee services	19	-	3.1	-	-	3.1
Balance at 31 December 2018 (restated)		**11.9**	**70.5**	**0.1**	**(66.0)**	**16.5**
Loss and total comprehensive loss for the year	20	-	-	-	(24.2)	**(24.2)**
Capital contribution	18	-	70.6	-	-	70.6
Employee share scheme – value of employee services	19	-	5.0	-	-	5.0
Balance at 31 December 2019		**11.9**	**146.1**	**0.1**	**(90.2)**	**67.9**

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

The notes on pages 16 to 58 form part of these financial statements.

Statement of cash flows for the year ended 31 December 2019

	Note	2019 £m	2018 (restated) £m
Net cash generated from operating activities	21	**6.2**	3.1
Investing activities			
Purchase of intangible assets	9	**(7.8)**	(5.6)
Purchase of property, plant and equipment	10	**(1.6)**	(0.9)
Investment in bonds	2	**(23.4)**	-
Proceeds from investment in bonds	2	**1.0**	-
Interest received	6	**0.3**	0.1
Net cash outflow from investing activities		**(31.5)**	(6.4)
Net cash outflow from operating and investing activities		**(25.3)**	(3.3)
Financing activities			
Funding to subsidiary undertakings		**(70.2)**	-
Repayment of funding by subsidiary undertakings		**33.8**	-
Payment of lease liabilities		**(3.3)**	(1.5)
Funding from parent undertaking		**75.7**	1.5
Repayment of funding to parent undertaking		**(6.7)**	-
Net cash inflow from financing activities		**29.3**	-
Net increase / (decrease) in cash and cash equivalents		**4.0**	(3.3)
Cash and cash equivalents at the beginning of the year		**10.8**	14.1
Cash and cash equivalents at the end of the year		**14.8**	10.8

The notes on pages 16 to 58 form part of these financial statements.

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

1 Accounting policies

General information

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 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 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 total comprehensive loss of £24.2 million during the year ended 31 December 2019 (2018 restated: loss of £13.4 million), as a result of significant ongoing investment in staff, technology and marketing, which is expected to continue in 2020.

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 the Parent 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 the Parent 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 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.

The financial statements have been prepared on a going concern basis, applying a historical cost convention except for certain financial instruments that are predominantly carried at fair value.

Notes forming part of the financial statements for the year ended 31 December 2019 (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 the Parent available on its corporate website: https://corporate.fundingcircle.com/results-and-reports

Changes in accounting policy and disclosures

a) *Standards and amendments to existing standards and interpretations effective on or after 1 January 2019 adopted by the Company*

The Company has adopted the following new and amended IFRSs and interpretations from 1 January 2019 on a full retrospective basis for IFRS 16, and prospectively for the other standards.

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

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

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

1 Accounting policies (continued)

b) New standards, amendments and interpretations issued but not effective for the financial period beginning 1 January 2019 and not early adopted

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

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 3, 'Business combinations', definition of a business	Business combinations	1 January 2020
Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' definition of material	Definition of material	1 January 2020
Revised Conceptual Framework for Financial Reporting & 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

These standards are not expected to have a material impact on the Company in the current or future reporting years and on foreseeable future transactions

IFRS 16 Leases was issued in January 2016 and was endorsed by the EU in 2017. The standard is effective for annual periods beginning on or after 1 January 2019 and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Company adopted IFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019.

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

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

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

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

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

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

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

1 Accounting policies (continued)

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS16	IFRS 16	As reported	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Depreciation	(1.2)	(2.3)	(3.5)	(1.1)	(2.3)	(3.4)
Other costs	(128.3)	2.8	(125.5)	(106.9)	2.8	(104.1)
Operating expenses	(129.5)	0.5	(129.0)	(108.0)	0.5	(107.5)
Operating loss	(23.8)	0.5	(23.3)	(14.4)	0.5	(13.9)
Finance costs	(0.1)	(0.7)	(0.8)	(0.3)	(0.8)	(1.1)
Loss before taxation	(23.5)	(0.2)	(23.7)	(14.5)	(0.3)	(14.8)
Loss for the year	(24.0)	(0.2)	(24.2)	(13.1)	(0.3)	(13.4)
Other comprehensive income:						
Total comprehensive loss for the year	(24.0)	(0.2)	(24.2)	(13.1)	(0.3)	(13.4)
Total comprehensive loss attributable to:						
Owners of the parent	(24.0)	(0.2)	(24.2)	(13.1)	(0.3)	(13.4)

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

1 Accounting policies (continued)

Impact of the change in accounting policies on the balance sheet

	As at 31 December 2019			As at 31 December 2018		
	Amounts without adoption of IFRS16	IFRS 16	As reported	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Non-current assets						
Property, plant and equipment	3.7	11.8	15.5	3.4	14.1	17.5
	57.3	11.8	69.1	16.6	14.1	30.7
Total assets	101.3	11.8	113.1	39.6	14.1	53.7
Current liabilities						
Trade and other payables	31.5	(3.0)	28.5	19.9	(3.4)	16.5
Lease liabilities	-	3.6	3.6	-	3.4	3.4
	31.5	0.6	32.1	19.9	-	19.9
Non-current liabilities						
Lease liabilities	-	12.4	12.4	-	15.2	15.2
	0.7	12.4	13.1	2.1	15.2	17.3
Total liabilities	32.2	13.0	45.2	22.0	15.2	37.2
Equity						
Accumulated losses	(89.0)	(1.2)	(90.2)	(64.9)	(1.1)	(66.0)
Total equity	69.1	(1.2)	67.9	17.6	(1.1)	16.5
Total equity and liabilities	101.3	11.8	113.1	39.6	14.1	53.7

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

1 Accounting policies (continued)

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS16	IFRS 16	As reported	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
Net cash inflow from operating activities	3.0	3.2	6.2	1.6	1.5	3.1
Financing activities						
Payment of lease liabilities	-	(3.3)	(3.3)	-	(1.5)	(1.5)
Net cash inflow from financing activities	32.5	(3.2)	29.3	1.5	(1.5)	-
Net increase/(decrease) in cash and cash equivalents	4.0	-	4.0	(3.3)	-	(3.3)
Cash and cash equivalents at the beginning of the year	10.8	-	10.8	14.1	-	14.1
Cash and cash equivalents at the end of the year	14.8	-	14.8	10.8	-	10.8

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

1 Accounting policies (continued)

Summary of new and amended accounting policies

Leases

At inception of a contract, the Company 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 Company 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 re-measurements 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 payment 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 Company 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 Company's incremental borrowing rate is used, which is the rate that the Company 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 Company:

- 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 re-measured when there is a change in scope.

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 Company 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 Company. 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.

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 Company 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).

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

1 Accounting policies (continued)

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 Company 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 Company 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 Company's net investment in the lease and the right-of-use asset from the head lease is de-recognised. Any difference resulting from the de-recognition of the right-of-use asset and recognition of the net investment in the sub-lease 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.

Financial instruments

Financial assets
The Company 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 Company'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 ("FVOCI") if they are held within a business model being held to collect and sell, the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest.
- Financial assets that do not meet the criteria to be amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss ("FVTPL"). In addition, the Company may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The purchase of any credit impaired assets is also at fair value after any impairment.

Except for certain investments in loan securities as described below, the Company does not recognise on its balance sheet loans arranged between borrowers and investors as it is not a principal party to the contracts and is not exposed to the risks and rewards of these loans.

With the exception of investments in bonds and subordinated loans receivable from related undertakings all financial assets are held to collect contractual cash flows.

Under certain circumstances the Company does hold investments in loan securities.

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

1 Accounting policies (continued)

Investment in bonds

Investment in bonds represent Funding Circle Ltd's investment in the bonds issued by the securitisation SPVs. Under risk retention regulations in the UK, Funding Circle as originator of the loans is required to hold a minimum 5% 'vertical slice' of the most senior to most junior tranches of issued notes and this must be held until the maturity of the bond. The Group distinguishes between bonds held in the securitisation vehicle between 'rated senior' and 'unrated junior' notes. Rated notes are measured initially at fair value and subsequently at amortised cost as the criteria for this classification are met under IFRS 9, however unrated notes fail the solely for the purposes of principal and interest (SPPI) test under IFRS 9 due to a concentration of credit risk from the waterfall structure of the SPV compared to the credit risk of the underlying pool of assets and are classified at fair value through profit and loss both initially and subsequently as a result. The senior bonds are subject to impairment provision under the expected credit loss model detailed below.

Subordinated loans receivable from related undertakings

Included within loans receivable from related undertakings are subordinated loans in relation to the Company's funding of Great Trinity Lending DAC (GTL). GTL is a warehouse special purpose vehicle used to originate loans for securitisation, using funding from this subordinated loan and a senior debt facility provided by a financial institution. Repayment of loan principal and interest to the senior facility and subordinate loan are governed by a waterfall structure whereby the risk of default is concentrated to the subordinate lender first before the senior lender. The business model in holding the loan by the Company is with the intention of selling financial assets through securitisation of SME loans in GTL, and in addition the subordinate loan fails the solely for the purposes of principal and interest (SPPI) test under IFRS 9 due to a concentration of credit risk from the waterfall structure of GTL compared to the credit risk of the underlying pool of SME loan assets. They are therefore classified at fair value through profit and loss both initially and subsequently.

Other financial assets

Financial assets recognised in the balance sheet as trade and other receivables are classified as amortised cost. They are recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Cash and cash equivalents are classified as amortised cost with the exception of money market funds that are classified as FVTPL. Cash and cash equivalents include cash in hand, deposits held at call with banks, money market funds and other short-term highly liquid investments with original maturities of three months or less. The carrying amount of these assets approximates to their fair value.

Impairment of financial assets

The Company 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 ("ECL") (that is, expected losses arising from the risk of default in the next 12 months) are recognised and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit impaired. For these assets, lifetime ECL (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised, and interest income is still calculated on the gross carrying amount of the asset.
- Stage 3 consists of financial assets that are credit impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For these assets, lifetime ECL are also recognised, but interest revenue is calculated on the net carrying amount (that is, net of the ECL allowance).

The Company 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 ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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

1 Accounting policies (continued)

Impairment of financial assets (continued)
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 Company 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 Company 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.

ABS Bonds

The Company issued bonds through an unconsolidated structured vehicle, however the SPV and bonds are not held on the Company's balance sheet. Transaction costs associated with the issuance of the bonds are deferred to the balance sheet within prepayments and recognised over the lifetime of the bond liability held by the SPV.

Summary of existing accounting policies

Income recognition

Revenue is recognised in line with IFRS 15 which provides a single, principles-based five-step model to be applied to all contracts with customers:

1) identify the contract with the customer;
2) identify the performance obligations in the contract, introducing the new concept of "distinct";
3) determine the transaction price;
4) allocate the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis; and
5) recognise revenue when (or as) the entity satisfies its performance obligation.

Revenue earned for the arrangement of finance is classified as transaction fees and are a cost of the borrower. The contract signed by the borrower and related terms are clearly identifiable. The performance obligation in the contract is considered to be the funding of the loan through the marketplace platform and the transaction price is clearly stated in the borrower's contract. Revenue is recognised immediately once loans are fully funded on the marketplace and after the loans are accepted by the borrowers. Such fees are automatically deducted from the amount borrowed and recognised at that point as the Group has the right to consideration and the performance obligation has been satisfied.

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

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

1 Accounting policies (continued)

Net investment income includes:

- Interest income from investment in bonds that the Company holds on balance sheet ("Investment income");
- Interest income from subordinated loan to warehouse subsidiary;
- Gains/losses from changes in the fair value of financial assets held on balance sheet;
- Amortisation of costs associated with the issuing of bonds.

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

Net income, being revenue and net investment income, comprises the fair value of the consideration received or receivable in the ordinary course of the Company's activities. Net income 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.

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.

Exceptional items

Exceptional items are the items of income or expense that the Company 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 Company's financial performance. Such items would include profits or losses on disposal of businesses and costs associated with acquisitions and disposals; major restructuring programmes; significant goodwill or other assets impairments; other particularly significant or unusual items.

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.

Interest Receivable

Interest receivable is recognised on an accruals basis within 'Interest income' in the Statement of comprehensive income.

Administrative 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.

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).

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

1 Accounting policies (continued)

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 Statement of comprehensive income, 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's financial statements when the options are exercised (and recognised directly in equity in the Company financial statements).

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.

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 Statement of comprehensive income in the period to which they relate. The Company has no further payment obligations once the contributions have been paid.

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. 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 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 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 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.

Dividends

Dividends are recognised when they become legally payable, in accordance with the Companies Act 2006.

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

1 Accounting policies (continued)

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 as at 31 December 2019 is up to 5 years.

Capitalised Development Costs

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;
- 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. 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.

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

1 Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, as follows:

Computer equipment	1-3 years
Furniture and fixtures	3-5 years

Leasehold improvements that qualify for recognition as an asset are measured at cost and are presented as part of property, plant and equipment in the non-current assets section on the balance sheet. Depreciation on leasehold improvement is calculated using the straight line method over the lease term.

Impairment of tangible and intangible assets

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.

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.

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

Ordinary shares are classified as equity where their term include no contractual obligation to transfer cash or other financial asset to another entity.

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

2 Financial risk management

The Board 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; and
- 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:

- Loans due from and payable to related undertakings
- Investment in bonds
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables; and
- Lease liabilities.

Categorisation of financial assets and financial liabilities

The table shows the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2019:

31 December 2019	Assets at fair value through profit and loss	Carried at amortised cost	Total
Assets	**£m**	**£m**	**£m**
Investment in bonds	16.6	5.4	22.0
Loans due from related undertakings	36.1	-	36.1
Trade and other receivables	-	5.8	5.8
Cash and cash equivalents	-	14.8	14.8
	52.7	26.0	78.7
Liabilities			
Trade and other payables	-	(28.5)	(28.5)
Lease liabilities	-	(16.0)	(16.0)
Loan payable to parent undertaking	-	-	-
	-	(44.5)	(44.5)

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

2 Financial risk management (continued)

31 December 2018 - restated

	Carried at amortised cost
	£m
Assets	
Loans due from related undertakings	2.1
Trade and other receivables	7.2
Cash and cash equivalents	10.8
	20.1
Liabilities	
Trade and other payables	(8.1)
Lease liabilities	(18.6)
Loan payable to parent undertaking	(1.5)
	(28.2)

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, investment in bonds (senior tranches) and loans and payables/receivables to/from related parties (excluding subordinated loans). Due to their short-term nature, the carrying value of each of the above financial instruments approximates to their fair value.

Financial instruments measured at fair value

IFRS 13 requires certain disclosures regarding 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.

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

2 Financial risk management (continued)

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

	Fair value measurement using			
31 December 2019	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	Total £m
Financial assets				
Investment in bonds	-	-	16.6	16.6
Subordinated loans due from related undertakings	-	-	36.1	36.1
	-	-	52.7	52.7

Investment in bonds represents the subordinated tranches of bonds measured at fair value through profit and loss (the rated senior tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £16.6 million at 31 December 2019 (2018: £nil).

Subordinated loans due from related undertakings represents the loan from the Company to Great Trinity Lending DAC (GTL). The loan within GTL is subordinate to a senior lending facility and related interest payments, senior expenses and service fees. The fair value has been estimated by discounting future cash flows expected from the loan using a discount rate that reflects the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying value of the loan was £36.1 million at 31 December 2019 (2018: £nil).

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

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in bonds	16.6	Discount rate	11.6%	A change in the discount rate by 50 bps would increase/ decrease fair value by £0.3 million.
Subordinate loans due from related undertakings	36.1	Discount rate	13.1%	A change in the discount rate by 50 bps would increase/ decrease fair value by £0.4 million.

Fair value movements on investment in bonds and subordinate loans due from related undertakings are recognised through the profit and loss account in net investment income as part of net income.

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

2 Financial risk management (continued)

A reconciliation of investment in bonds is shown as follows:

	Investment in bonds	Subordinated loans due from related undertakings
	£m	**£m**
Balance as at 1 January 2019	**-**	**-**
Additions	**17.5**	**67.8**
Principal repayments	**(0.5)**	**(31.7)**
Net loss on the change in fair value of financial instruments at fair value through profit and loss during the year	**(0.4)**	**-**
Balance as at 31 December 2019	**16.6**	**36.1**

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:-

	2019	2018
	£m	**£m**
Trade and other receivables		
- Trade debtors	**0.2**	0.4
- Other debtors	**3.0**	2.7
- Receivables from related undertakings	**0.1**	1.6
- Rent deposit	**2.5**	2.5
Investment in bonds	**22.0**	-
Loans due from related undertakings	**36.1**	2.1
Cash and cash equivalents	**14.8**	10.8

Trade receivables represent invoiced amount 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.

Investments in bonds are the Company's retained investment in bonds issued by the unconsolidated securitisation vehicle to satisfy risk retention rules. Due to the waterfall structure of the bonds, the credit risk normally associated with SME loans is skewed towards the subordinate bonds and away from the senior bonds held by the Company, increasing the risk of financial loss associated with subordinate tranches.

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.

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

2 Financial risk management (continued)

Individual risk limits for banks and financial institutions are set by external rating agencies. The credit risk on cash and cash equivalents is managed under the Group's treasury policy that stipulates the limits and quantities that the Group must remain within. No credit or counter party limits were exceeded during the year.

Impairment of financial assets:

Financial assets held at amortised cost are required to be assessed for impairment via an ECL model under IFRS 9. The Company holds risk retention investments of 5% of the senior tranches of bonds issued from UK SPVs at amortised cost. The investment in bonds is presented net of the provision for expected credit losses in the balance sheet.

The provision related to each investment in bonds is based on the ECLs associated with the probability of default of that bond in the next 12 months unless there has been a significant increase in credit risk of that bond since origination, taking into account the protection offered by the waterfall structure of the SPV in which they are held resulting in defaults being incurred first against junior tranches of bonds.

As the senior bonds are rated, the Company can monitor the rating of the bonds for an increase in credit risk. It is considered that there has been a significant increase in credit risk if the risk rating of a tranche of bonds falls by a rating band by a rating agency.

The Company defines a default, classified within non-performing, as a bond which has been downgraded by two credit rating bands. Where there has been a significant increase in credit risk or a bond is considered non-performing lifetime ECLs are recognised

The Company bands each bond investment using external credit ratings however these are presented on a collective basis as they are derived from the same pool of cash flows.

While the Company continues to monitor the rating of the senior notes, in the current year the provision is £nil million, with the entire portfolio considered to be in the performing stage.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's position. The Company's liquidity position is monitored and reviewed on an ongoing basis by the Directors.

The amounts disclosed in the below tables are the contractual undiscounted cash flows. The maturity analysis of financial instruments at 31 December 2019 and 31 December 2018 is as follows:

At 31 December 2019	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting £m	Carrying amount £m
Financial liabilities							
Trade and other payables	2.8	-	-	-	2.8	-	2.8
Lease liabilities	0.9	2.7	14.3	-	17.9	(1.9)	16.0
	3.7	2.7	14.3	-	20.7	(1.9)	18.8

At 31 December 2018 (restated)	Less than 3 months £m	Between 3 months and 1 year £m	Between 1 and 5 years £m	Over 5 years £m	Total undiscounted cash flows £m	Impact of discounting £m	Carrying amount £m
Financial liabilities							
Trade and other payables	8.1	-	-	-	8.1	-	8.1
Lease liabilities	0.9	2.6	14.1	3.5	21.1	(2.5)	18.6
	9.0	2.6	14.1	3.5	29.2	(2.5)	26.7

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

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

2 Financial risk management (continued)

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 price risk with respect to financial instruments as it does not hold any marketable securities.

(b) Cash flow and fair value interest rate risk

The Company's interest rate risk is associated with cash and cash equivalents and intragroup 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 investment in bonds held by the company pay interest at SONIA + a margin. The company is exposed to cash flow interest rate risk to the extent that SONIA could fall, and also fair value risk on the investment in junior tranches of bonds measured at fair value.

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 the 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.

The Company's interest risk on financial instruments is limited to interest receivable on investment in bonds, interest receivable on intragroup borrowings/receivables and cash and cash equivalent balances. The maturities of financial instruments subject to interest rate risk are as follows:

	Less than 3 months		Between 3 months and 1 year		Between 1 and 5 years	
	2019	2018	**2019**	2018	**2019**	2018
At 31 December	**£m**	£m	**£m**	£m	**£m**	£m
Fixed rate						
Loans receivable from subsidiary undertakings	-	-	**36.1**[1]	-	-	2.1
Floating rate						
Investment in bonds	-	-	-	-	**22.0**	-
Cash and cash equivalents	**14.8**	10.8	-	-	-	-
	14.8	10.8	**36.1**	-	**22.0**	2.1

[1]Included within this figure is £36.1 million (2018: £nil) in relation to the subordinate loan to GTL which earns the excess net income from GTL after senior interest and expenses are paid and therefore is neither a fixed or floating interest rate.

(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.

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

2 Financial risk management (continued)

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.

Interest income on bonds is subject to movements in SONIA. However, the bonds are subject to an interest rate cap on SONIA at 2%. A 0.5% decrease in SONIA would result in decrease of projected annual interest income for the year ended 31 December 2020 of £0.1 million.

Capital management

The Company considers its capital to comprise of its ordinary share capital and share premium less its accumulated retained losses. Quantitative detail is shown in the statement of changes in equity.

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 Directors monitor a number of KPIs at both the Company and the Parent 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 to confirm that the Company has adequate resources to meet its working capital requirements.

The Company is subject to a regulatory capital regime governed by the Financial Conduct Authority. The Company has calculated and put in place adequate financial resources well in excess of the required financial resources requirements.

Sources of estimation uncertainty and critical judgements that may result in a material adjustment in future periods are outlined in note 3.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Company's financial statements requires management 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 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 Company in the financial statements have been applied on a consistent basis with the financial statements for the year ended 31 December 2018.

The following are the key sources of estimation uncertainty that the Directors have made in the process of applying the Company's accounting policies and have the most significant effect on the amounts recognised in the financial statements. There are no further critical accounting judgements.

Key sources of estimation uncertainty:

Impairment of investments in subsidiary undertakings (Note 4)

The carrying value of investment in subsidiary undertakings is reviewed for impairment on an annual basis. The recoverable amount is determined based on the value in use. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the subsidiaries and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates. During the year impairment was identified in relation to the investment in Funding Trustee Ltd. Based on the performance of the entity and changes to the medium-term outlook for the investment it was determined that the carrying value exceeded the value in use. The investment was impaired by £1.9 million to a remaining investment of £0.5 million. It is reasonably possible that the remaining investment may be fully impaired based on the future performance of Funding Circle Trustee Limited.

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

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

Fair value of financial instruments (Note 2)

At 31 December 2019, the carrying value of the Company's financial instrument assets held at fair value was £52.7 million (31 December 2018: £nil).

In accordance with IFRS 13 Fair Value Measurement, the Company categorises financial instruments carried on the Consolidated Statement of Financial Position 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 judgement 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 relevant significant unobservable input relates to the discount rates applied to the fair value calculation, details of which are set out below.

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in bonds	16.6	Discount rate	11.6%	A change in the discount rate by 50 bps would increase/ decrease fair value by £0.3 million.
Subordinated loans due from related undertakings	36.1	Discount rate	13.1%	A change in the discount rate by 50 bps would increase/ decrease fair value by £0.4 million.

It is considered that the range of reasonably possible outcomes in relation to the discount rate used in light of the impact of Covid-19 could be in excess of +/-100 bps and as a result the fair value of the assets could materially diverge from management's estimate.

4 Operating expenses

	2019 £m	2018 (restated) £m
Expenses by nature		
Depreciation	**3.5**	3.4
Amortisation	**4.0**	3.5
Impairment of intangible assets	**1.7**	-
Impairment of investment in subsidiary	**1.9**	-
Rental income	**-**	(0.3)
Operating lease rentals		
- Other assets	**0.1**	0.1
- Land and buildings	**-**	0.1
Employment costs (including contractors)	**43.3**	42.0
Marketing costs (excluding employment costs)	**38.5**	37.7
Data and technology	**2.2**	4.3
Intragroup technology development and management recharges	**18.5**	5.7
Other expenses	**15.3**	11.0
	129.0	107.5

Audit fees payable to the company's auditors for the statutory and client money audits were £90,000 and £70,000 respectively (2018: £67,000 and £46,000). Fees for other assurance related services were £83,000 (2018: £68,000).

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

4 Operating expenses (continued)

	2019	2018
	£m	£m
Impairment of intangible assets	1.7	-
Impairment of investment in subsidiary	1.9	-
Total	3.6	-

Impairment of intangible assets: During the year intangible assets capitalised in the Company in relation to the Dutch and German businesses within the Group of the Parent Company were identified for which the carrying value exceeded the value in use within the Company. An impairment was recognised of £1.7 million. There was no cash impact of the impairment.

Impairment of investment in subsidiary: During 2019 capital contributions were made by the Company in relation to the subsidiary undertaking Funding Circle Trustee Limited. The Company assessed the carrying value of the investment and determined that this exceeded the value in use resulting in £1.9 million of impairment. There was no cash impact of the impairment.

5 Employment costs and employees

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

	2019	2018
	£m	£m
Wages and salaries	38.3	33.8
National insurance costs	4.3	4.0
Pension costs	0.9	0.5
Share-based payments	4.0	5.1
Total employee benefit expense	47.5	43.4
Contractors costs	3.4	3.9
Less: Capitalised development costs	(7.6)	(5.3)
	43.3	42.0

Share-based payments above includes the associated social security costs of £1.1 million (2018: £2.0 million).

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

	2019	2018
	Number	Number
Product & technology	162	131
Operations, support and administrative	427	388
	589	519

In addition to the employees above, the average monthly number of contractors during the year was 29 (2018: 33).

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

6 Finance income

	2019	2018
	£m	**£m**
Interest on bank deposits	**0.3**	0.1
Other interest	**0.1**	0.1
	0.4	0.2

7 Finance costs

	2019	2018 (restated)
	£m	**£m**
Interest on lease liabilities	**0.7**	0.8
Other interest	**0.1**	0.3
	0.8	1.1

8 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 19% (2018: 19%).

	2019	2018
	£m	**£m**
UK income tax		
UK corporation taxation	**0.5**	-
Research and development tax credit	**-**	(1.4)
Total current tax	**0.5**	(1.4)
Total tax charge / (credit)	**0.5**	(1.4)

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

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

8 Income tax (continued)

The Company's tax charge for the year can be reconciled to the loss before tax shown per the Statement of comprehensive income as follows:

Factors affecting the tax charge for the year:

	2019	2018 (restated)
	£m	£m
Loss before tax	(23.7)	(14.8)
Taxation on loss before tax at 19% (2018: 19%)	(4.5)	(2.8)
Effects of:		
Research and development tax credit	0.5	(1.4)
Non-deductible expenses	0.1	0.2
UK-UK transfer pricing adjustments	(0.2)	(0.1)
Temporary differences not recognised	3.9	2.7
Impairment charge	0.7	-
Tax charge/(credit) for the year	0.5	(1.4)

The effective tax rate for the year was (2.1%) (2018: 9.5%).

The statutory UK corporation tax rate is currently 19%, effective from 1 April 2017 (reduced from 20% previously). This rate would have been further reduced in future periods to 17% (effective from 1 April 2020 which was substantively enacted on 6 December 2016). Deferred tax has been determined using the applicable effective future tax rate that will apply in the expected period of utilisation of the deferred tax asset or liability.

Recognition of deferred tax assets and liabilities

The tables below show the movement on deferred tax assets and liabilities unrecognised during the year and the makeup of opening and closing deferred tax assets and liabilities

	31 December 2019	31 December 2018 (restated)
	£m	£m
Property, plant and equipment	(1.2)	0.1
Carry forward losses	11.6	7.3
Deferred stock options	0.6	-
Unrecognised deferred tax asset	11.0	7.4

The Company has unrelieved tax losses of £68.2 million (2018: £42.8 million) in respect of trading losses that are available for offset against future taxable profits. The Company has not recognised a deferred tax asset in respect of these losses as there is not sufficient visibility of suitable profits being generated to utilised these losses.

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

8 Income tax (continued)

Factors affecting the tax charge in future years

Factors that may affect the Company's future tax charge include the geographic location of the Company's earnings, the tax rates in those locations, changes in tax legislation and the use of brought forward tax losses. The calculation of the Company'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 11 March 2020 that the rate of corporation tax will remain at 19% from 1 April 2020. This measure (cancelling the enacted cut to 17%) will be made under a Budget resolution which has statutory effect under the provisions of the Provisional Collection of Taxes Act 1968. As such, it is not substantively enacted for the accounting year ended 31 December 2019 and deferred tax has been recognised at 17%. Although not substantively enacted, the effect of the announcement would increase its unrecognised deferred tax asset as at 31 December 2019 by £1.3 million to £12.3 million (property, plant and equipment: £(1.3) million; carry forward losses: £13.0 million; deferred stock options: £0.6 million).

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

9 Intangible assets

	Capitalised development costs	Computer software	Total
	£m	£m	£m
Cost			
At 1 January 2018	13.0	0.6	13.6
Additions	5.3	0.3	5.6
Reclassification	(0.1)	0.1	-
Disposals	(0.3)	-	(0.3)
At 31 December 2018	17.9	1.0	18.9
At 1 January 2019	17.9	1.0	18.9
Additions	7.6	0.2	7.8
Disposals	(0.5)	-	(0.5)
At 31 December 2019	25.0	1.2	26.2
Accumulated Amortisation			
At 1 January 2018	4.4	0.2	4.6
Charge for the year	3.3	0.2	3.5
Reclassification	(0.1)	0.1	-
Disposals	(0.3)	-	(0.3)
At 31 December 2018	7.3	0.5	7.8
At 1 January 2019	7.3	0.5	7.8
Charge for the year	3.7	0.3	4.0
Impairment	1.7	-	1.7
Disposals	(0.5)	-	(0.5)
At 31 December 2019	12.2	0.8	13.0
Carrying amount			
At 31 December 2019	**12.8**	**0.4**	**13.2**
At 31 December 2018	10.6	0.5	11.1

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

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

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

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

	31 December 2019 £m	31 December 2018 (restated) £m
Property, plant and equipment (owned)	**3.7**	3.4
Right-of-use assets	**11.8**	14.1
	15.5	17.5

Reconciliation of amount recognised in the balance sheet:

	Leasehold improvements £m	Computer equipment £m	Furniture and fixtures £m	Right of use assets (property) £m	Total £m
Cost					
At 1 January 2018	3.4	1.7	1.0	22.3	28.4
Additions	0.4	0.6	0.1	-	1.1
At 31 December 2018	3.8	2.3	1.1	22.3	29.5
At 1 January 2019	3.8	2.3	1.1	22.3	29.5
Additions	0.7	0.5	0.3	-	1.5
At 31 December 2019	4.5	2.8	1.4	22.3	31.0
Accumulated depreciation					
At 1 January 2018	0.8	1.2	0.7	5.9	8.6
Charge for the year	0.5	0.5	0.1	2.3	3.4
At 31 December 2018	1.3	1.7	0.8	8.2	12.0
At 1 January 2019	1.3	1.7	0.8	8.2	12.0
Charge for the year	0.6	0.5	0.1	2.3	3.5
At 31 December 2019	1.9	2.2	0.9	10.5	15.5
Carrying amount					
At 31 December 2019	**2.6**	**0.6**	**0.5**	**11.8**	**15.5**
At 31 December 2018	2.5	0.6	0.3	14.1	17.5

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

10 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 2019	31 December 2018 (restated)
	£m	£m
Current	**3.6**	3.4
Non-current	**12.4**	15.2
Total	**16.0**	18.6

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

	31 December 2019	31 December 2018 (restated)
	£m	£m
Depreciation charge of right of use assets (property)	**2.3**	2.3
Interest expense (included in finance costs)	**0.7**	0.8

The total cash outflow for leases (excluding short-term and low-value leases) in 2019 was £3.3 million, (2018: £1.5 million).

A maturity analysis illustrating the undiscounted contractual cash flows of lease liabilities is included within the liquidity risk disclosure within note 2.

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

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

11 Investments in subsidiary undertakings

Investments in subsidiary undertakings are accounted for at cost less impairment, 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 Assets/ (Liabilities)	Revenues	(Loss)	Interest held
		£	£	£	%
Funding Circle Trustee Limited	England & Wales	533,909	-	(158,247)	100
Funding Circle Property Finance Limited	England & Wales	(87,617)	-	(6,274)	100
Funding Circle Asset Finance Limited	England & Wales	(5,622)	-	(274)	100
Made To Do More Limited	England & Wales	-	-	-	100

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

In addition Great Trinity Lending 1 DAC is a structured warehouse entity incorporated in Ireland in the year which holds SME loan assets in a warehouse awaiting sale to a securitisation entity. It is a bankruptcy remote special purpose vehicle and as such there is no requirement for the Company to provide support to the entity. The entity's activities are not governed by voting rights, however the Company has an interest in the entity based on the purpose and design of the entity, 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 in the returns from the entity. The registered address is 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland.

12 Loans due from subsidiary undertakings

	2019	2018
	£m	£m
Funding Circle Trustee Limited	-	2.1
Great Trinity Lending 1 DAC	36.1	-
	36.1	2.1

The Company has unsecured sterling term loan facilities for £2.0 million and £3.0 million with its subsidiaries Funding Circle Property Finance Limited ("FCPFL") and Funding Circle Trustee Limited ("FCTL") respectively and a revolving credit facility with Funding Circle Asset Finance Limited of up to £0.5 million. 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.

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

12 Loans due from subsidiary undertakings (continued)

At the year-end, FCTL has drawn down £nil excluding interest (2018: £1.9 million). Total interest income of £0.1 million (2018: £0.1 million) in relation to FCTL funding has been recognised in the Statement of comprehensive income. The carrying amount of these loans approximates to its fair value.

The Company has provided Great Trinity Lending 1 DAC (GTL) with a subordinated loan facility for the purpose of originating loans within the warehouse entity to be securitised at a later date in separate securitisation vehicles. The facility granted does not charge a set rate of interest but pays excess cash according to a waterfall structure within GTL to the Company. This interest paid to the Company by GTL is treated as net investment income in the Company.

13 Trade and other receivables

	2019	**2018**
	£m	**£m**
Trade receivables	**0.2**	0.4
Other receivables	**3.0**	2.7
Prepayments	**3.7**	3.9
Accrued income	**1.5**	1.1
Rent deposit	**2.5**	2.5
Receivables from related undertakings	**0.1**	1.6
	11.0	12.2

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

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

The rental deposits are in respect of the Company's property leases which expire over the next five years.

No trade receivables were overdue or impaired.

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

14 Trade and other payables

	2019	2018 (restated)
	£m	£m
Trade payables	1.5	1.2
Taxes and social security costs	2.4	3.4
Other creditors	0.4	0.4
Accruals and deferred income	4.7	5.0
Payables to related undertakings	19.5	6.5
	28.5	16.5

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

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.

15 Provisions

	Dilapidation
	£m
At 1 January 2018	0.4
Additional provision	0.2
At 31 December 2018	0.6
Additional provision	0.1
At 31 December 2019	0.7

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.

16 Loan payable 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 £20.0 million 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.

During the year, the Company has settled certain amounts due under the intercompany loan obligations cumulative of interest of £6.7 million (2018: £14.6 million) with Funding Circle Holdings plc. This was achieved through a capital contribution from Funding Circle Holdings plc and therefore there were no cash flows.

In the same period, the Company has drawn down £5.1 million (2018: £1.5 million) of additional funding under the above facility agreement. Total interest costs of £0.1 million (2018: £0.3 million) has been recognised in the Statement of comprehensive income. The carrying amount of this loan approximates to its fair value.

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

17 Share capital and share premium account

Share capital	2019	2018
	£m	£m
Authorised		
Ordinary shares of £1 each:	Unlimited	Unlimited
Called up, allotted and fully paid		
Ordinary shares of £1 each: 11,931,089 (2018: 11,931,089) issued	11.9	11.9

Share premium	2019	2018
	£m	£m
Balance at 1 January and 31 December	0.1	0.1

18 Capital reserve

	2019	2018
	£m	£m
Balance at 1 January	70.5	52.8
Capital contribution	70.6	14.6
Employee share schemes – value of employee services	5.0	3.1
Balance at 31 December	146.1	70.5

The Parent remains the sole shareholder of the Company.

During the financial year the company received funding of £70.6 million (2018: £14.6 million) from the Parent to meet its working capital requirements and to fund the loan to Great Trinity Lending 1 DAC to originate SME loans for securitisation.

The cumulative value of options and shares granted by the Parent over its equity instruments to the Company's employees is treated as capital contribution of £5.0 million (2018: £3.1 million) from the Parent.

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

19 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:

Post-IPO Employee Share Plan

Since FCH's Admission on the London Stock Exchange, the Parent company operates a single discretionary share-based long-term incentive plan (the "LTIP"). The main features of LTIP are set out below.

Form of LTIP awards

The Board grants awards in the form of 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 in the Funding Circle Holdings plc Annual Report and Accounts for the year ended 31 December 2019 for further details. Any performance condition may be amended or substituted if one or more events occur which cause the Group 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 in the Funding Circle Holdings plc Annual Report and Accounts for the year ended 31 December 2019.

The Group 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 Group 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 twelve months after death (or such other period as the Group Board may determine).

Pre-IPO Employee Share Plans

Participants who hold vested Pre-IPO Options may exercise their Pre-IPO Options following the Parent's - Funding Circle Holdings plc's - listing on the London Stock Exchange. Unvested Pre-IPO Options will continue to vest according to their current Service Condition schedule.

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.

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

19 Share-based payment (continued)

ESS Shares with 'shadow' Unapproved Options

To subscribe for the ESS Shares, employees had to give up certain employment rights. ESS shares were 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 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 ESS Shares also had 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 depended on the number of ESS Shares granted.

The ESS Shares were each issued in conjunction with a 'shadow' Unapproved Option. The Unapproved Option could be exercised if the relevant enterprise value hurdle was not met upon an exit event. Both the ESS Shares and the 'shadow' Unapproved Options vested according to the Company's "Standard Vesting" terms, as discussed in the description of Unapproved Options above. ESS shares have not been available for issue since 1 December 2017 and were converted into ordinary shares on IPO, with the shadow options lapsing.

Growth Shares with 'shadow' Unapproved Options

Growth Shares were an 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 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 was not met upon an exit event. Both the Growth Shares and the 'shadow' Unapproved Options vested according to the Company's "Standard Vesting", as discussed in the description of Unapproved Options above.

All share-based incentives are subject to service conditions. Such conditions are not taken into account in the fair value of the service received. The fair value of services received in return for share-based incentives is measured by reference to the fair value of share-based incentives granted. The estimate of the fair value of the share-based incentives is measured using either the Monte Carlo or Black-Scholes pricing model as is most appropriate for each scheme. All Growth Shares were converted into ordinary shares on IPO, and the related 'shadow' options lapsed.

Charge for the year

Included in operating expenses is a charge for share-based payments and associated social security costs of £4.0 million (2018: £5.1 million) that arises from transactions accounted for as equity-settled share-based payment transactions.

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

19 Share-based payment (continued)

Movement in the 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		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 2018	3,239,750	0.027	4,753,089	0.296	13,420,528	0.351	-	-	21,413,367	0.290
Granted during the period	-	-	4,379,192	0.319	-	-	854,875	-	5,234,067	0.267
Exercised during the period	(2,605,831)	0.027	(1,327,358)	0.326	-	-	-	-	(3,933,189)	0.128
Forfeited during the period	(3,007)	0.027	(298,098)	0.436	(28,125)	0.390	-	-	(329,230)	0.429
Converted on IPO	-	-	-	-	(13,392,403)	0.351	-	-	(13,392,403)	0.351
Outstanding at 31 December 2018	630,912	0.027	7,506,825	0.299	-	-	854,875	-	8,992,612	0.251

	EMI Options		Unapproved Options		ESS and Growth Shares		LTIP Awards		Total	
	Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2019	630,912	0.027	7,506,825	0.299	-	-	854,875	-	8,992,612	0.251
Granted during the period	-	-	-	-	-	-	5,746,111	-	5,746,111	-
Exercised during the period	(149,600)	0.027	(862,250)	0.399	-	-	(115,007)	-	(1,126,857)	0.309
Forfeited during the period	-	-	(272,461)	0.521	-	-	(493,905)	-	(766,366)	0.185
Outstanding at 31 December 2019	481,312	0.027	6,372,114	0.276	-	-	5,992,074	-	12,845,500	0.137

1. Weighted average exercise price

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

19 Share-based payment (continued)

Movement in the share plans (continued)

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 2019:

	EMI Options		Unapproved Options		LTIP Awards		Total	
Range of exercise prices	Number and WARCL[2]		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years
£0 - £0.008	-	-	2,651,850	8.5	5,992,074	8.3	8,643,924	8.4
£0.009 - £0.176	481,312	3.6	795,481	2.1	-	-	1,276,793	2.7
£0.177 - £0.471	-	-	2,551,258	8.3	-	-	2,551,258	8.3
£0.472- £1.75	-	-	373,525	8.5	-	-	373,525	8.5
	481,312	3.6	6,372,114	7.6	5,992,074	8.3	12,845,500	7.8

The following table summarises information about the share awards outstanding at 31 December 2018:

	EMI Options		Unapproved Options		LTIP Awards		Total	
Range of exercise prices	Number and WARCL[2]		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years
£0 - £0.008	-	-	2,721,850	9.5	854,875	9.8	3,576,725	9.6
£0.009 - £0.176	630,912	4.7	809,483	3.1	-	-	1,440,395	3.8
£0.177 - £0.471	-	-	3,527,522	9.0	-	-	3,527,522	9.0
£0.472- £1.75	-	-	447,970	9.5	-	-	447,970	9.5
	630,912	4.7	7,506,825	8.5	854,875	9.8	8,992,612	8.4

[2]. Weighted average remaining contractual life

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

19 Share-based payment (continued)

Unapproved Options Scheme

There have been no unapproved options granted since IPO in 2018. The weighted average fair values of options granted under the Unapproved Options Scheme were £0.73 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:

	2018
Share price (various times during the year)	£1.89
Exercise price at / (between)	£nil - £0.44
Expected life	4 years
Expected volatility	48%
Risk-free interest rate (between)	0.93% and 1.02%
Dividend yield	Nil

LTIP Awards

Since all LTIP Awards were made post-IPO, the Company has used its share price as the fair value of the LTIP Awards granted during the year to employees excluding Executive Directors. The fair value of Executive Director share options is estimated at the grant date using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted.

	2019
Strike price	£4.40
Strike price on grant date	£1.80
Expected life	2.5 years
Expected volatility	69%
Risk-free interest rate (between)	1%
Dividend yield	Nil

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Group considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

20 Accumulated losses

	£m
Balance at 1 January 2018 (restated)	(52.6)
Loss and total comprehensive loss for the year	(13.4)
Balance at 31 December 2018 (restated)	**(66.0)**
Loss and total comprehensive loss for the year	(24.2)
Balance as at 31 December 2018	**(90.2)**

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

21 Notes to the cash flow statement

Cash generated from operations

	2019	2018 (restated)
	£m	£m
Loss before tax for the year	(23.7)	(14.8)
Adjustments for:		
Depreciation of property, plant and equipment	3.5	3.4
Amortisation of intangible assets	4.0	3.5
Impairment of intangible assets	1.7	-
Impairment of investments in subsidiaries	1.9	-
Non-cash employee benefits expense – share-based payments and associated social security costs	3.8	4.8
Fair value adjustment	0.4	-
Finance income	(0.4)	(0.2)
Finance costs	0.8	1.1
Tax credit received	-	1.4
Other non-cash movements	(0.5)	-
Changes in working capital:		
Movement in trade and other receivables	1.2	(4.7)
Movement in trade and other payables	13.5	8.6
Net cash generated from operations	6.2	3.1

Cash and cash equivalents

	31 December 2019	31 December 2018
	£m	£m
Cash and cash equivalents	14.8	10.8

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

21 Notes to the cash flow statement (continued)

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 liabilities from financing activities

	1 January 2018 (restated) £m	Cash flow £m	Other non-cash movements £m	**31 December 2018 (restated) £m**
Lease liabilities	(19.3)	1.5	(0.8)	(18.6)
Liabilities from financing activities	(19.3)	1.5	(0.8)	(18.6)

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

	1 January 2019 (restated) £m	Cash flow £m	Other non-cash movements £m	**31 December 2019 £m**
Lease liabilities	(18.6)	3.3	(0.7)	**(16.0)**
Liabilities from financing activities	(18.6)	3.3	(0.7)	**(16.0)**

22 Operating lease arrangements

	2019 £m	**2018 (restated) £m**
Lease payments under operating leases recognised as an expense in the year	**0.1**	0.2

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:

	2019 £m	**2018 (restated) £m**
Within one year	-	-
In the second to fifth year inclusive	**0.1**	0.1
After five years	-	-
Balance at 31 December	**0.1**	0.1

23 Dividends per share

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

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

24 Related party transactions

During the year, the Company drew an additional £5.1 million and repaid £6.7 million of funds due to the Parent under the facility agreement. Funds drawn down under the facility agreement as at 31 December are £nil (2018: £1.5 million). Total interest charges of £0.1 million (2018: £0.3 million) have been recognised in the Statement of comprehensive income on drawdowns under the facility agreement (see note 16). The Company also made payments for an amounts of £0.3 million (2018: made payments of £1.1 million) to third parties on behalf of the Parent.

During the year, the Company has recognised total costs of £6.2 million (2018: £5.7 million) under the cooperation agreement with Funding Circle USA (an affiliate company owned by the Parent). In the same period, the Company made payments of £0.3 million (2018: £nil) to third parties on behalf of Funding Circle USA and received payments of £0.2 million (2018: £0.6 million) made by the affiliate to third parties on behalf of the Company. The Company also made payments of £6.4 million (2018: £0.1 million) and received payments of £nil (2018: £nil) in settlement of the intercompany balance with affiliate during the year.

During the year, the Company has recognised the total interest income of £0.1 million (2018: £0.1 million) in respect of balances owing under the facility agreements with FCTL (see note 12). The Company funded £2.5 million (2018: £nil) into FCTL as a capital contribution and in turn FCTL repaid the loan facility of £2.1 million (2018: £nil), repaid interest of £0.1 million (2018: £nil) and repaid short-term payables of £0.4 million (2018: £nil). The Company subsequently impaired the investment in FCTL by £1.9 million.

During the year, the Company has recognised interest income within net investment income of £1.5 million (2018: £nil) in respect of balances owing under the subordinated loan agreement with GTL (see note 12).

During the year, the Company has recognised total costs of £8.8 million (2018: £nil) and £3.5 million (2018: £nil) under the marketing support agreement with Funding Circle CE GmbH and FC Nederland BV (affiliate companies owned by the Parent). In the same period, the Company paid expenses for an amounts of £1.6 million (2018: £0.5 million) on behalf of Funding Circle CE GmbH. The Company also received payments of £nil (2018: £0.4 million) in settlement of the intercompany balance with Funding Circle CE GmbH during the year.

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	
	2019	**2018**	**2019**	**2018**
	£m	**£m**	**£m**	**£m**
Short-term payables/receivables:				
Funding Circle Trustee Limited	-	0.4	-	-
Funding Circle Property Finance Limited	-	0.2	-	-
Funding Circle USA Inc	-	-	**6.2**	6.3
Funding Circle Holding plc	-	0.8	**0.3**	-
Funding Circle CE GmbH	-	0.2	**8.8**	-
Funding Circle Nederland BV	-	-	**3.5**	
Funding Circle Global Partners Limited	-	-	**0.7**	0.2
Great Trinity Lending 1 DAC	-	-	-	-
Inter-company loans:				
Funding Circle Holding plc	-	-	-	1.5
Funding Circle Trustee Limited	-	2.1	-	-
Great Trinity Lending 1 DAC	**36.1**	-	-	-
	36.1	3.7	**19.5**	8.0

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

24 Related party transactions (continued)

During the previous year, the Group entered into, and successfully won, a competition run by Nesta, a charitable organisation, with a prize of £100,000 paid to develop a finance modelling template that can be used by small businesses. An additional £200,000 of cash in relation to this prize was received in 2019. Ed Wray was a trustee of Nesta until December 2019.

Compensation of key management personnel:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company's key management personnel comprises the Directors of the Company:

	2019	2018
	£m	£m
Salaries and short-term benefits	**1.4**	0.7
Equity based compensation	**0.4**	0.3
	1.8	1.0

The Directors are also the key management personnel of the Company. The aggregated emoluments for the highest paid Director inclusive of employers national insurance contributions was £0.4 million (2018: £0.3 million).

From 3 October 2018, following the IPO of the Parent Company, the Directors who holds common Directorship with the Parent Company are paid from the Parent. Further details on Directors' remuneration is shown in the Report of Directors' Remuneration in the Governance section of the parent company's Annual Report and Accounts.

Interests in other entities:

Small Business Origination Loan Trust 2019-3 DAC ("SBOLT 2019-3"), is an unconsolidated structured securitisation entities set up in the financial year which hold the portfolio of SME loans and issues bonds after securitisation has occurred.

The Company provided a subordinated loan funding to Great Trinity Lending DAC ("GTL") being the Warehouse SPV in order to originate SME Loans for the purpose of being securitised in SBOLT 2019-3. Throughout the financial year, the Company provided £60 million of capital to GTL prior to the sale of SME loans to SBOLT 2019-3 on securitisation. On securitisation, the Company received capital repayments of £31.7 million and has subsequently provided a further £7.8 million of capital, bringing the total outstanding balance on the loan to £36.1 million as at 31 December 2019. The Company earned interest on the loan of £1.4 million in the financial year.

£127.5 million of SME loans from the warehousing phase were originated in GTL and subsequently securitised at carrying value during 2019. The Company holds a residual interest of 51% of the unrated bonds issued by SBOLT 2019-3 on the balance sheet under investment in bonds.

The Company recognised servicing fees from servicing the SME loans held by the securitisation SPV in the year of £0.4 million and from the warehouse phase of £0.6 million. The Company's maximum exposure to loss from bonds issued by the entities is equal to the carrying value of the investment in bonds on the balance sheet of £16.6 million. The Company incurred £0.9 million of direct costs associated with the securitisation programme which have been deferred to the balance sheet within prepayments, and have amortised by £0.1 million to a balance of £0.8 million at 31 December 2019.

25 Controlling party

The Directors regard the Parent (FCH) as the immediate and ultimate parent company of the Company. The Company does not have a single ultimate controlling party. FCH prepares consolidated financial statements for the Group which can be obtained from Companies House and FCH's corporate website: .https://corporate.fundingcircle.com/results-and-reports.

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

26 Post balance sheet events

Since 31 December 2019, macroeconomic conditions have changed in the UK as a result of the COVID-19 outbreak.

From the second half of March 2020, all UK businesses have been affected by COVID-19 (a non-adjusting post balance sheet event) and it is not yet known how, or when, government intervention measures will stabilise financial markets. This has created a significant degree of uncertainty for both investors and SMEs alike.

It is too early to predict how this will impact on the financial performance of the SME loans which the Company services and in which the Company has certain financial investments and therefore the Company cannot reliably estimate the financial impact on its balance sheet. However, the exposure of the Company's balance sheet to potential underperformance of the underlying SME loans is described below:

i) Investment in bonds

As part of the ABS programme, at the point of securitisation, the Company is required by regulation to hold a 5% residual interest in the securitised bonds which at 31 December 2019 was £5.4 million. This interest is held as 5% of each tranche of rated bonds.

The principal and interest of the bonds is paid out of the collective cash flows of the SME loans held within the securitisation vehicle with the rated bonds being paid off in a waterfall mechanism in advance of the junior unrated bonds. Similarly, any underperformance of the SME loans affects the more junior rated bonds before the more senior rated bonds.

The Company's exposure to underperformance of the SME loans in respect of the rated bonds is therefore shared with holders of each tranche of the more senior debt.

In addition to the above investment, the Company holds an investment of £16.6 million in the junior unrated bonds. As the securitisation was undertaken in a joint transaction, Waterfall Asset Management hold a similar level of investment. Junior unrated bonds are exposed to first loss from underperformance of the SME loan book in advance of the rated bonds.

ii) Loans due from subsidiary undertakings

As part of the establishment of GTL, the Company provided it with a subordinated loan facility for the purpose of originating loans which would subsequently be securitised. At 31 December 2019, the carrying value of the loan made to GTL was £36.1 million. In addition, GTL borrows from a financial institution banking facility whose lending is senior to the subordinated loan facility from the Company.

During the warehousing phase, GTL earns interest income from performing loans and pays interest expense to the financial institution and the Company.

As the Company's loan is subordinated, repayments of principal and interest are paid to the financial institution prior to repayments to the Company. Accordingly, if there is underperformance of the SME loan book, the Company's investment could be at risk.

As disclosed in note 2, Financial risk management, the Company measures the subordinated loan to GTL at fair value. Accordingly, any change in the discount rate applied to the underlying future cash flows as a result of volatility in financial markets in response to the COVID-19 outbreak would impact on the carrying amount of the loan.