

Funding Circle Holdings Limited

Annual Report and Financial Statements

For the year ended 31 December 2016

Registered number 07123934





Contents

	Page
1. Officers and professional advisers	2
2. Group strategic report	3
3. Report of the directors	7
4. Statement of directors' responsibilities	9
5. Independent auditors' report on the consolidated financial statements	10
6. Consolidated statement of comprehensive income	13
7. Consolidated balance sheet	14
8. Consolidated statement of changes in equity	15
9. Consolidated statement of cash flows	16
10. Notes forming part of the consolidated financial statements	17
11. Independent auditors' report on the Company financial statements	51
12. Company balance sheet	54
13. Company statement of changes in equity	55
14. Company statement of cash flows	56
15. Notes forming part of the Company financial statements	57-67



Officers and professional advisers

Directors

S Desai
A Learoyd
N Rimer
E Wray
H Nelis
R Steel
J Asmussen
J Daniels

Secretary

L Vernall

Registered office

71 Queen Victoria Street
London
EC4V 4AY

Independent Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH
United Kingdom

Bankers

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

Santander UK Plc
Santander House
10 Ludgate Hill
London
EC4M 7RE



Group strategic report for the year ended 31 December 2016

The directors present their strategic report on Funding Circle Holdings Limited and its subsidiaries (together the "Group") for the year ended 31 December 2016. This strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters, which are significant to the Group when viewed as a whole. The directors in preparing this strategic report have complied with Section 414C of the Companies Act 2006.

Principal activities

Funding Circle Holdings Limited (the "Company") is an investment holding company and the principal activity of its subsidiary undertakings is the provision of online lending platforms whereby investors can lend money to small and medium sized businesses in the UK, USA, Germany and Netherlands.

General business review

The results of the Group for the year, report revenue of £50.9m (2015: £32.0m) and total comprehensive loss for the year of £35.7m (2015: loss of £36.9m). The total equity of the Group equals £104.2m (2015: £133.2m).

The directors were satisfied with the performance of the Group during 2016.

The key performance objective for the Group is to grow lending to small businesses internationally whilst delivering attractive risk adjusted returns to investors, supported by a strong credit assessment process. Funding Circle is the only lending platform of scale that operates across multiple geographies and is focused on small business borrowers. This adds operational and technical complexity, and requires significant investment in the short term; the directors believe this will lead to network effects, competitive advantage and profitability in time.

In pursuing this key objective, the Group continued to invest in technology, marketing and staffing during 2016, which resulted in the Group continuing to be loss-making. Despite this heavy investment and a tougher industry environment for online lending platforms, the Group increased revenues by 59%, significantly faster than the increase in net cash used in operations of £40.0m (2015: £35.4m) that increased by 13%. The UK business was cashflow positive in Q4 of 2016, in line with the expectations of the Group at the start of the year. The UK business has continued to generate positive cashflow through the first half of 2017.

In January 2017, the Group completed a Series F equity funding round of £82.0m.

The Group has a stated vision of achieving originations (being loans made) of \$100bn (~ £71 billion) per year and helping businesses to create around 3 million new jobs per year. 2016 was another year of growth with annual originations increasing to over £1billion for the first time.

2016 highlights

Diversifying and deepening investor capital was a key highlight of 2016.

Launch of SBOLT - securitisation

In April 2016, Funding Circle facilitated the first securitisation of small business loans originated via a lending platform in Europe. Moody's and Standard and Poor's rated the transaction, known as SBOLT, and part of the

Group strategic report for the year ended 31 December 2016 (continued)

Class A Notes were sold to the German state development bank ("KfW") with the benefit of a AAA/Aaa guarantee from the European Investment Fund ("EIF"). This was the first time both KfW and the EIF had invested in a securitisation of loans originated through a lending platform.

As the first securitisation of small business loans originated through Funding Circle's platform, SBOLT provides further diversification of funding sources.

European Investment Bank

In June 2016, Funding Circle UK secured £100 million investment from the European Investment Bank ("EIB"). This new partnership represented the first deployment of EIB funding through a lending platform to support small businesses.

Expansion of SME Income Fund

Funding Circle SME Income Fund ("FCIF") raised £150m in an Initial Public Offering (IPO) on the London Stock Exchange. The fund began purchasing loans through Funding Circle's UK and USA lending platforms in 2015 and in early 2016, expanded to begin purchasing loans in Germany and the Netherlands.

During 2016, FCIF completed an equity investment of £15.0m via an issuance of ordinary shares.

In April 2017, FCIF completed a further capital raise by issuing C shares for net proceeds of £140.0m.

The Fund is independent and is not part of the consolidated financial statements.

Retail investors

The Group added an additional 15,000 retail investors in 2016, taking the total to ~70,000, and began work in the UK on plans to roll out a Funding Circle Innovative Finance ISA. To date, retail investors have earned £135m in interest (after fees and bad debt) through Funding Circle.

Retail investors are a central part of the Group's investor base providing further diversification alongside institutional investors, Government and funds dedicated to lending through Funding Circle.

Senior appointments

During 2016 the Group continued to strengthen its leadership team with the appointment of Darryl Bowman as Chief Marketing Officer and its Board with the appointment of Eric Daniels, the former Chief Executive of Lloyds Banking Group.

In 2017, the Board has appointed Sean Glithero as the new global Chief Financial Officer. Sean joined Funding Circle from Auto Trader, the UK's largest digital automotive marketplace where he was Chief Financial Officer. He joined Auto Trader in 2006 and has held various group and divisional roles within the business.

In 2017, Maria Weaver joined as Chief People Officer, who most recently was Head of HR of Twitter's global revenue organisation.

Business environment

2016 was characterised by political instability with the US Presidential Elections and EU Referendum vote. This led to a continuing uncertain economic environment across all of the Group's markets. In the USA there was a contraction in the overall online lending market, which has since recovered.



Group strategic report for the year ended 31 December 2016 (continued)

In the UK, Funding Circle's largest market, the Group witnessed a retrenchment by high street banks from small business lending following the Brexit vote. This has left a funding gap for businesses, which has created a significant market opportunity. Funding Circle is filling this void, and delivering more net lending to UK small businesses than many of the UK's major high street banks. In addition, Funding Circle continues to be the preferred choice of finance for small business owners with high customer satisfaction scores (measured using Net Promoter Score).

Analysis of key performance indicators

The Group's key financial and other performance indicators during the year were as follows:

	2016 £'000	2015 £'000	Change %
Loan book	1,365,592	845,602	61%
Originations	1,065,084	727,653	46%
Revenue	50,878	31,958	59%
Total comprehensive loss for the year	(35,715)	(36,915)	3%
Net cash outflow from operating activities	(39,969)	(35,412)	(13%)
Total comprehensive loss margin	(70%)	(116%)	39%

The key performance indicators of the Group are set out above. As part of the annual budgetary process, targets are set with respect to revenue, operating expenses and cash utilisation in order to effectively manage the activities of the Group. Performance is reviewed on a regular basis and reforecasted, and appropriate actions are taken as required.

Principal risks and uncertainties

The principal risks and uncertainties that the Group faces include, among others, risks related to competition, government regulations, management of growth, cash management, new products and technologies, commercial agreements, slower economy, system interruptions and taxation and fraud.

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

Going concern

The directors are satisfied that the Company and the Group have 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) and have therefore continued to adopt the going concern basis in preparing the financial statements.

Regulatory authorisation

During 2017, Funding Circle Ltd (the UK business) received a full authorisation from the Financial Conduct Authority (FCA).



Group strategic report for the year ended 31 December 2016 (continued)

Future developments

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

On behalf of the Board

A handwritten signature in black ink, appearing to be 'S. Desai', written over a horizontal line.

S. Desai
Director

20 September 2017



Report of the directors for the year ended 31 December 2016

The directors present their report on the affairs of the Group and the Company together with the audited annual financial statements of the Group and the Company and independent auditors' report, for the year ended 31 December 2016.

Directors

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

S Desai
J Meekings (resigned 4 May 2016)
A Learoyd
N Rimer
E Wray
H Nelis
R Steel
J Asmussen (appointed 31 March 2016)
J Daniels (appointed 9 September 2016)
J Bennett (appointed 21 September 2016; resigned 7 December 2016)

Financial reporting

The Group's performance is monitored on an ongoing basis. An annual budget is prepared and specific objectives and targets are set. The budget is reviewed and approved by the Board. The key trading aspects of the business are monitored weekly and internal management and financial accounts are prepared monthly. The results are compared to budget and prior year performance.

Financial risk management

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

Dividends

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

Future developments

Details regarding future developments are included in the strategic report.

Research and development

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

Political donations

During the year, no political donations were made.

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

Employment policies

The Group is committed to treating all of its employees and job applicants fairly and equally. It is our policy not to discriminate on the basis of their gender, sexual orientation, marital or civil partner status, gender reassignment, race, religion or belief, colour, nationality, ethnic or national origin, disability or age, pregnancy or trade union membership or the fact that they are a part-time worker or a fixed-term employee. The equal opportunities policy operated by the Group ensures all workers have a duty to act in accordance with this.

We believe in providing equal opportunities for all employees. The employment of people with a disability is included in this commitment and the recruitment, training, career development and promotion of people with a disability is based on the aptitudes and abilities of the individual. Should employees become disabled during their employment with us, efforts are made to continue their employment and, if necessary, appropriate training and reasonable equipment and facilities are provided.

We value our people and their opinions. We organise quarterly Group wide team meetings and hold regular business updates throughout the year to update employees on the Group's performance and operating priorities, as well as giving them an opportunity to submit questions and suggestions to the leadership team.

Independent Auditors

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

Statement of disclosure of information to auditors

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

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

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

Approved by the Board of directors
and signed on behalf of the Board



S Desai
Director

71 Queen Victoria Street,
London
EC4V 4AY

20 September 2017

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent 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 group and parent company will continue in business.

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

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

Independent auditors' report to the members of Funding Circle Holdings Limited

Report on the group financial statements

Our opinion

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

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

What we have audited

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

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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



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

Other matters

We have reported separately on the parent company financial statements of Funding Circle Holdings Limited for the year ended 31 December 2016.

Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 September 2017



Consolidated statement of comprehensive income for the year ended 31 December 2016

	Note	31 December 2016	31 December 2015
		£	£
Revenue	4	50,877,699	31,958,291
Other operating income	5	453,592	-
Operating expenses	6	(103,142,910)	(71,681,508)
Operating loss		(51,811,619)	(39,723,217)
Finance income	9	694,413	217,270
Foreign exchange gains/(losses)		3,932,171	(32,044)
Loss before taxation		(47,185,035)	(39,537,991)
Income tax	10	622,307	(39,425)
Loss for the year		(46,562,728)	(39,577,416)
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations	20	10,847,496	2,662,203
Total comprehensive loss for the year		(35,715,232)	(36,915,213)
Total comprehensive loss attributable to:			
Owners of the parent		(35,715,232)	(36,915,213)

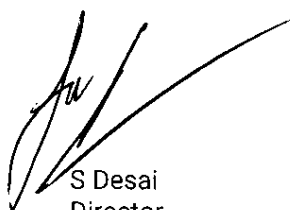
All amounts relate to continuing activities.



Consolidated balance sheet as at 31 December 2016

	Note	31 December 2016 £	31 December 2015 £
Non-current assets			
Goodwill	11	41,411,500	35,147,657
Intangible assets	12	11,633,343	4,155,841
Property, plant and equipment	13	5,105,493	4,647,059
Investments	14	1,220,612	1,759,673
		59,370,948	45,710,230
Current assets			
Investments	14	1,302,528	4,588,615
Trade and other receivables	15	11,854,346	8,577,573
Cash and cash equivalents	23	43,273,308	86,327,737
		56,430,182	99,493,925
Total assets		115,801,130	145,204,155
Current liabilities			
Trade and other payables	16	10,463,080	10,582,449
Short-term provisions	17	758,512	1,107,074
		11,221,592	11,689,523
Non-current liabilities			
Long-term provisions	17	409,158	294,000
Total liabilities		11,630,750	11,983,523
Equity			
Share capital	18	230,215	229,428
Share premium account	19	195,948,701	195,880,033
Capital redemption reserves	19	462	-
Foreign exchange reserve	20	15,191,708	4,344,212
Share options reserve	22	9,465,056	2,787,157
Accumulated losses	21	(116,665,762)	(70,020,198)
Total equity		104,170,380	133,220,632
Total equity and liabilities		115,801,130	145,204,155

The financial statements on pages 13 to 50 were approved by the Board and authorised for issue on 20 September 2017. They were signed on behalf of the Board by:



S Desai
Director

Company registration number 07123934

The notes on pages 17 to 50 form part of these financial statements.



Consolidated statement of changes in equity for the year ended 31 December 2016

	Note	Share capital £	Share premium account £	Capital redemption reserve £	Foreign exchange reserve £	Share options reserve £	Accumulated losses £	Total equity £
Balance at 1 January 2015		190,686	75,511,303	-	1,682,009	-	(30,442,782)	46,941,216
Loss for the year	21	-	-	-	-	-	(39,577,416)	(39,577,416)
Other comprehensive income	20	-	-	-	2,662,203	-	-	2,662,203
Issue of share capital		31,394	95,024,443	-	-	-	-	95,055,837
Issue of ordinary shares as consideration for a business combination		5,769	19,898,833	-	-	-	-	19,904,602
Shares to be issued as consideration for a business combination		1,579	5,445,454	-	-	-	-	5,447,033
Employee share schemes – value of employee services	22	-	-	-	-	2,787,157	-	2,787,157
Balance at 31 December 2015		229,428	195,880,033	-	4,344,212	2,787,157	(70,020,198)	133,220,632
Loss for the year	21	-	-	-	-	-	(46,562,728)	(46,562,728)
Other comprehensive income	20	-	-	-	10,847,496	-	-	10,847,496
Issue of share capital	18, 19	1,249	68,668	-	-	-	-	69,917
Buyback of ordinary shares	21	(462)	-	462	-	-	(82,836)	(82,836)
Employee share schemes – value of employee services	22	-	-	-	-	6,677,899	-	6,677,899
Balance at 31 December 2016		230,215	195,948,701	462	15,191,708	9,465,056	(116,665,762)	104,170,380

The notes on pages 17 to 50 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2016

	Note	31 December 2016	31 December 2015
		£	£
Net cash outflow from operating activities	23	(39,969,417)	(35,412,398)
Investing activities			
Purchase of intangible assets		(9,572,801)	(3,581,985)
Purchase of property, plant and equipment		(1,718,850)	(4,320,540)
Investment in loan securities		4,633,237	(2,942,244)
Acquisition of subsidiary		-	482,492
Interest received		530,879	217,270
Net cash outflow from investing activities		(6,127,535)	(10,145,007)
Financing activities			
Proceeds on issue of shares		69,943	98,960,439
Preferred share issue costs		-	(3,885,896)
Buyback of ordinary shares	21	(82,836)	-
Net cash (outflow)/inflow from financing activities		(12,893)	95,074,543
Net (decrease)/increase in cash and cash equivalents		(46,109,845)	49,517,138
Cash and cash equivalents at the beginning of the year		86,327,737	34,994,909
Effect of foreign exchange rate changes		3,055,416	1,815,690
Cash and cash equivalents at the end of the year		43,273,308	86,327,737

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

1. Accounting policies

General information

Funding Circle Holdings Limited (the "Company") is a private company incorporated on 13 January 2010 in the United Kingdom under the Companies Act 2006. The address of its registered office is given on page 2. The consolidated financial statements of the company for the year ended 31 December 2016 comprise the company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

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

Going concern

The Group's business activities together with the factors likely to affect its future development and position are set out in the Principal Activities and General Business Review sections of the Strategic Report on page 3.

The Group made a total comprehensive loss of £35.7m during the year ended 31 December 2016 (2015: loss of £36.9m), as a result of significant ongoing investment in staff, technology and marketing, which is expected to continue in 2017. The cash balance of the Group as at 31 December 2016 was £43.3m (2015: £86.3m).

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

The group has prepared detailed cash flow forecasts for the next 18 months. The directors have made enquiries with management and considered budgets and cash flow forecasts for the Group and have, at the time of approving these financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Further detail is contained in the strategic report on page 3.

Basis of preparation

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

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

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

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

1. Accounting policies (continued)

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

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

Changes in accounting policy and disclosures

- a. Standards and amendments to existing standards and interpretations effective on or after 1 January 2016 adopted by the Group and the Company

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

- b. New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not early adopted

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

STANDARD / INTERPRETATION	CONTENT	APPLICABLE FOR FINANCIAL YEARS BEGINNING ON/AFTER
IFRS 9	Financial instruments: Classification and measurement.	1 January 2018
IFRS 15	Revenue from contracts with customers.	1 January 2018
IFRS 16	Leases	1 January 2019

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

Basis of consolidation

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



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

1. Accounting policies (continued)

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

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

Foreign currency translation

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

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

Functional and presentation currency

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

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

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

Revenue recognition

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

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

1. Accounting policies (continued)

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

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

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible assets

Intangible assets with finite useful lives are amortised to profit or loss on a straight-line basis over their estimated useful lives. Useful lives and amortisation methods are reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis. Amortisation commences when the intangible asset is available for use. The residual value of intangible assets is assumed to be zero.

Computer Software Licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the licence period.



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

1. Accounting policies (continued)

Computer Software

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

- it is technically feasible to complete the software product so that it will be available of 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 and an appropriate portion of relevant overheads.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use over their estimated useful lives, which does not exceed eight years.

Other intangibles

Other intangibles comprises technology platform and loan book acquired on business combination. These costs are amortised over their estimated useful lives, which does not exceed three years.

Tangible fixed assets

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

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

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

Impairment of tangible and intangible assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for

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

1. Accounting policies (continued)

impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

Rental income

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

Interest Receivable

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

Expenses

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

Leases

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

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



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

1. Accounting policies (continued)

Pension obligations

The Group operates a defined contribution pension scheme. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years. Contributions payable to the Group's pension scheme are charged to the income statement in the year to which they relate. The Group has no further payment obligations once the contributions have been paid.

Financial instruments

Financial assets

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables financial assets, and available-for sale financial assets as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

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

The Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence (such as significant financial difficulty of

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

1. Accounting policies (continued)

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

Financial liabilities

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

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted.

Provisions

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

Share capital

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

Preferred share capital

Preferred share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preferred share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Current and deferred tax

The tax expense for the year comprises current and deferred tax. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the year end date.

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

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

1. Accounting policies (continued)

profit or loss. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted at the year-end date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax balances are not discounted.

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

Dividends

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

2. Financial risk management

The board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and ensure any limits are adhered to. The Group's activities are reviewed regularly and potential risks are considered.

Risk factors

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk (including currency risk, interest rate risk and other price risk)
- foreign exchange risk

Principal financial instruments

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

- Investments
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

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

2. Financial risk management (continued)

Categorisation of financial assets and financial liabilities

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

	Carried at amortised cost – Asset/(liabilities)		Carried at fair value	
	Carrying amount	Fair value	Based on market derived data	Based on individual valuation parameters
	£	£	£	£
Assets per statement of financial position				
Investments	1,302,528	1,302,528	1,220,612	-
Trade and other receivables	11,854,346	11,854,346	-	-
Cash and cash equivalents	43,273,308	43,273,308	-	-
	56,430,182	56,430,182	1,220,612	-
Liabilities per statement of financial position				
Trade and other payables	(11,376,694)	(11,376,694)	-	-
	(11,376,694)	(11,376,694)	-	-

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

	Carried at amortised cost – Asset/(liabilities)		Carried at fair value	
	Carrying amount	Fair value	Based on market derived data	Based on individual valuation parameters
	£	£	£	£
Assets per statement of financial position				
Investments	1,759,673	1,759,673	4,588,615	-
Trade and other receivables	8,577,573	8,577,573	-	-
Cash and cash equivalents	86,327,737	86,327,737	-	-
	96,664,983	96,664,983	4,588,615	-
Liabilities per statement of financial position				
Trade and other payables	(11,773,534)	(11,773,534)	-	-
	(11,773,534)	(11,773,534)	-	-



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

2. Financial risk management (continued)

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

Financial instruments measured at fair value

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

Disclosure of fair value measurements by level is according to the following fair value measurement hierarchy:

The fair value hierarchy has the following levels:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments that are not traded in an active market (for example, loan investments) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

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

	Fair value measurement at 31 December					
	Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2016	2015
	£	£	£	£	£	£
Financial assets						
<i>Available-for-sale financial assets</i>						
Unlisted securities	-	-	-	-	-	-
<i>Investments</i>						
Investment in loan securities	-	-	2,523,140	4,588,615	-	-
	-	-	2,523,140	4,588,615	-	-
Financial liabilities						
Trade and other payables	-	-	-	-	-	-
	-	-	-	-	-	-

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

2. Financial risk management (continued)

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held at banks.

The Group's maximum exposure to credit risk by class of financial asset is as follows:-

	31 December 2016 £	31 December 2015 £
<i>Non- Current</i>		
Investments in loan securities	1,302,528	1,759,673
<i>Current</i>		
Investments in loan securities	1,220,612	4,588,615
<i>Trade and other receivables</i>		
- Trade receivables	850,922	512,417
- Other receivables	4,337,364	3,982,303
- Prepayments and accrued income	2,281,648	1,097,681
- Rent deposit	4,384,412	2,985,172
Cash and cash equivalents	43,273,308	86,327,737

The fair value of cash and cash equivalents at 31 December 2016 and 31 December 2015 approximates the carrying value. Further details regarding cash and cash equivalents can be found in note 23. Credit risk is mitigated as cash and cash equivalents are held with reputable institutions.

Liquidity risk

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

The Group's liquidity position is monitored and reviewed on an ongoing basis by the directors.

The amounts disclosed in the following tables are the contractual undiscounted cash flows.



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

2. Financial risk management (continued)

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

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
At 31 December 2016	£	£	£	£
Financial assets				
Investments in loan securities	1,220,612	-	1,302,528	-
Trade and other receivables	5,188,286	6,666,060	-	-
Cash and cash equivalents	43,273,308	-	-	-
	<u>49,682,206</u>	<u>6,666,060</u>	<u>1,302,528</u>	<u>-</u>
Financial liabilities				
Trade and other payables	(4,467,991)	(6,499,545)	-	(409,158)
	<u>(4,467,991)</u>	<u>(6,499,545)</u>	<u>-</u>	<u>(409,158)</u>

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
At 31 December 2015	£	£	£	£
Financial assets				
Investments in loan securities	4,588,615	-	1,759,673	-
Trade and other receivables	4,494,720	4,082,853	-	-
Cash and cash equivalents	86,327,737	-	-	-
	<u>95,411,072</u>	<u>4,082,853</u>	<u>1,759,673</u>	<u>-</u>
Financial liabilities				
Trade and other payables	(4,831,018)	(6,648,516)	-	(294,000)
	<u>(4,831,018)</u>	<u>(6,648,516)</u>	<u>-</u>	<u>(294,000)</u>

Market risk

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

a. Price risk

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

b. Cash flow and fair value interest rate risk

The Group is not exposed to interest rate risk in relation to financial liabilities because it does not have any external borrowings.

The Group's interest risk on financial assets is limited to interest receivable on cash and cash deposit balances.

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

2. Financial risk management (continued)

c. Sensitivity analysis

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

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

d. Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the UK pound and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Apart from these particular cash flows the Group aims to fund expenses and investments in the respective currency and to manage foreign exchange risk at a local level by matching the currency in which revenue is generated and expenses are incurred.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

Capital management

The Group considers its capital to comprise of its equity share capital, share premium, foreign exchange reserve, share options reserve and capital redemption reserve, less its accumulated losses. Quantitative detail is shown in the consolidated statement of changes in equity.

The directors' objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group has achieved an increase of 59% in revenue from 2016. This increase was mainly as a result of the Group continuing to invest in growth, particularly in marketing, staffing and technology spend.



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

2. Financial risk management (continued)

The directors monitor a number of KPIs at both the Group and individual subsidiary level on a monthly basis. As part of the budgetary process, targets are set with respect to operating expenses in order to effectively manage the activities of the Group. Performance is reviewed on a regular basis and appropriate actions are taken as required. These internal measures indicate the performance of the business against budget/forecast and to confirm that the Group has adequate resources to meet its working capital requirements.

3. Critical accounting judgements and key sources of estimation uncertainty

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

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

Investment in loan securities

Investments in certain loan securities have been classified as financial assets at fair value through profit or loss under IAS 39. The above classification is mainly because all such loans are acquired principally for selling in the short term and hence are seen as financial assets held for trading. They are initially recognised at fair value on the statement of financial position with the subsequent measurement at fair value with all gains and losses being recognised in profit or loss.

As well as the above investment in loan securities, the Group holds certain loans on its balance sheet (see note 14). The Group reviews its loans portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified within an individual loan in that portfolio. This evidence may include observable data indicating that there is an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling in future cash flows. The methodology and assumptions used for estimating both the amount and timings of future cash flows are reviewed regularly to reduce any variances between loss estimates and actual loss experience.

Share based payments

The Group operates a number of equity-settled, share based compensation plans, under which the Group receives services from employees as consideration for equity instruments (options and shares) of the Company. The fair value of the employee services received in exchange for the grant of the options and

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

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

shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options and shares granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the Group over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options and shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The grant by the Company of options and shares over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employees services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity (the Company) accounts.

Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The impairment was assessed under both the fair value net of selling costs and value in use calculations. These calculations require the use of estimates (see note 11).

No goodwill impairment has been recognised in the current or prior year.



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

4. Revenue

The Group's operations are carried out in the UK, the USA, Germany, Netherlands and Spain. All revenue is derived from the provision of online lending platforms, and associated services.

	31 December 2016 £	31 December 2015 £
Revenue from continuing operations		
UK	39,278,007	23,802,545
Rest of the World	11,599,692	8,155,746
	50,877,699	31,958,291

5. Other operating income

	31 December 2016 £	31 December 2015 £
Rental income	453,592	-
	453,592	-

The Group receives rental income from the subletting of unused office space.

6. Operating expenses

	31 December 2016 £	31 December 2015 £
Depreciation of property, plant and equipment	1,407,210	759,132
Amortisation of intangible assets	2,765,294	555,535
Loss on disposal of property, plant and equipment	2,092	367,702
Acquisition costs - FC Continental Europe	-	266,922
Restructuring costs - FC Continental Europe	-	64,559
<i>Operating lease rentals</i>		
- Other assets	93,707	56,546
- Land and buildings	4,685,952	2,758,922
Employment costs (including directors' emoluments)	51,466,769	27,458,818
<i>Auditors' remuneration</i>		
- Auditors' remuneration for the audit of company's, and its subsidiaries', annual financial statements (including expenses)	325,013	279,192
- Audit-related assurance services	71,000	97,920
Foreign exchange gains/(losses)	3,932,171	(32,044)
Other expenses	38,393,702	39,048,304
	103,142,910	71,681,508



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

7. Remuneration of key management personnel

	31 December 2016 £	31 December 2015 £
Wages and salaries	238,803	353,681

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

8. Employees

The average monthly number of employees (including directors, see note 7) during the year were:

	2016 Number	2015 Number
IT	155	135
Operations, support and administrative	550	349
	705	484

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

	31 December 2016 £	31 December 2015 £
Wages and salaries	41,171,397	22,489,969
Social security costs	3,587,801	2,181,692
Pension costs	29,672	-
Share options granted to directors and employees	6,677,899	2,787,157
Total employee benefit expense	51,466,769	27,458,818

9. Finance income

	31 December 2016 £	31 December 2015 £
Interest on bank deposits	248,184	82,363
Interest on loan securities	446,229	134,907
	694,413	217,270



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

10. Income tax

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

	31 December 2016 £	31 December 2015 £
Current tax		
Foreign tax suffered	-	15,874
Adjustment in respect of prior years	(622,307)	23,551
Total current tax	(622,307)	39,425
Tax per income statement	(622,307)	39,425

Factors affecting the tax charge for the year:

	31 December 2016 £	31 December 2015 £
Loss before taxation	(47,185,035)	(39,537,991)
Taxation on loss at 20.0% (2015: 20.25%)	(9,437,007)	(8,005,099)
<i>Effects of:</i>		
Adjustments in respect of prior years	(622,307)	23,551
Non-deductible expenses	1,384,287	849,059
Income not taxable	-	(23,482)
Goodwill on consolidation	(2,250,457)	(180,459)
Temporary differences not recognised	10,367,558	7,386,181
Deduction for share options	(64,381)	(10,326)
Tax (credit)/charge for the year	(622,307)	39,425

During 2016, the Group received a tax credit of £622,307 (2015: £nil) in respect of its R&D claims for prior years. Accordingly, the amount is reflected as a tax credit in the statement of total comprehensive income.

The Group has unrelieved tax losses that are available for offset against future taxable profits. The Group has not recognised a deferred tax asset of £5,865,776 (2015: £6,330,697) that is primarily in respect of these losses as in the opinion of the directors there is not sufficient visibility of suitable profits being generated to utilise these losses.

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

11. Goodwill

	Goodwill £	Total £
Cost and carrying amount		
At 1 January 2015	9,527,407	9,527,407
Acquisition of a subsidiary	24,238,238	24,238,238
Exchange differences	1,382,012	1,382,012
At 31 December 2015	35,147,657	35,147,657
At 1 January 2016	35,147,657	35,147,657
Exchange differences	6,263,843	6,263,843
At 31 December 2016	41,411,500	41,411,500

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. At the balance sheet date, the Company has two CGUs being Funding Circle USA ("FCUSA") and its subsidiaries and Funding Circle Continental Europe ("FCCE") and its subsidiaries.

	31 December 2016 £	31 December 2015 £
Funding Circle USA, Inc.	12,086,790	10,034,670
Funding Circle CE GmbH	29,324,710	25,112,987
Total goodwill	41,411,500	35,147,657

The Group performed its annual impairment test on the goodwill that was recognised on the acquisition of FCUSA and FCCE. The impairment test involved comparing the carrying value of the assets held for use to their recoverable amount. The recoverable amount represents the higher of the entity's fair value net of selling costs and its value in use.

The impairment was assessed under both the fair value net of selling costs and value in use calculations. The fair value review took into consideration the group valuation for the Series F funding round in January 2017 and the estimated market capitalisations of comparable companies, based on calibrated revenue multiples.

The Group prepares a formal five year management plan for its operations, which is used in the value in use calculations. Due to the early stage business and developing nature of peer-2-peer lending markets, the five year plan data was extended for an additional five year period under the target operating model.

The cash flow projections are based on the following key assumptions:

- Revenue growth at a compound annual growth rate of 83% and 117% for FCUSA and FCCE respectively;



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

- Pre-tax discount rate of 13% and 14% for FCUSA and FCCE respectively. The discount rate has been determined using the CAPM formula for each geography;
- Revenues beyond the five-year period are extrapolated using an estimated growth rate of 2.5%.

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

The review did not identify any impairment to the goodwill due to adequate headroom of expected recoverable amount over carrying amount. The recoverable amount of the FCCE CGU compared with the FCUS CGU was more sensitive to changes in the compound annual revenue growth rate such that a modest fluctuation in the growth rate will result in the fair value of FCCE CGU being much closer to its carrying value.

12. Intangible assets

	Capitalised development costs £	Computer software £	Other intangibles £	Total £
Cost				
At 1 January 2015	94,320	134,894	-	229,214
Acquisition of subsidiary	-	13,931	1,099,603	1,113,534
Exchange differences	-	-	35,280	35,280
Additions	3,520,481	25,184	46,592	3,592,257
Disposals	-	-	(126,424)	(126,424)
At 31 December 2015	3,614,801	174,009	1,055,051	4,843,861
At 1 January 2016	3,614,801	174,009	1,055,051	4,843,861
Exchange differences	256,373	2,336	183,800	442,509
Additions	9,940,354	36,555	-	9,976,909
Disposals	-	-	(7,351)	(7,351)
At 31 December 2016	13,811,528	212,900	1,231,500	15,255,928
Accumulated Amortisation				
At 1 January 2015	51,090	81,395	-	132,485
Charge for the year	428,589	50,463	76,483	555,535
Impairment charge	-	-	126,424	126,424
Disposals	-	-	(126,424)	(126,424)
At 31 December 2015	479,679	131,858	76,483	688,020
At 1 January 2016	479,679	131,858	76,483	688,020
Exchange differences	120,042	541	48,688	169,271
Charge for the year	2,237,222	28,070	500,002	2,765,294
At 31 December 2016	2,836,943	160,469	625,173	3,622,585
Carrying amount				
At 31 December 2016	10,974,585	52,431	606,327	11,633,343
At 31 December 2015	3,135,122	42,151	978,568	4,155,841

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

13. Property, plant and equipment

	Leasehold improvements £	Computer equipment £	Furniture and fixtures £	Total £
Cost				
At 1 January 2015	637,030	682,188	326,083	1,645,301
Acquisition of subsidiary	-	57,273	6,316	63,589
Exchange differences	-	5,434	9,393	14,827
Additions	3,082,554	801,521	730,465	4,614,540
Disposals	(643,883)	(20,070)	(13,204)	(677,157)
At 31 December 2015	3,075,701	1,526,346	1,059,053	5,661,100
At 1 January 2016	3,075,701	1,526,346	1,059,053	5,661,100
Exchange differences	61,668	74,776	64,623	201,067
Additions	852,755	458,294	451,355	1,762,404
Disposals	-	(11,863)	-	(11,863)
At 31 December 2016	3,990,124	2,047,553	1,575,031	7,612,708
Accumulated depreciation				
At 1 January 2015	212,165	259,763	69,281	541,209
Acquisition of subsidiary	-	19,438	1,347	20,785
Exchange differences	-	2,370	-	2,370
Charge for the year	186,113	406,874	166,145	759,132
Disposals	(286,768)	(12,261)	(10,426)	(309,455)
At 31 December 2015	111,510	676,184	226,347	1,014,041
At 1 January 2016	111,510	676,184	226,347	1,014,041
Exchange differences	13,554	59,513	22,668	95,735
Charge for the year	418,351	560,890	427,969	1,407,210
Disposals	-	(9,771)	-	(9,771)
At 31 December 2016	543,415	1,286,816	676,984	2,507,215
Carrying amount				
At 31 December 2016	3,446,709	760,737	898,047	5,105,493
At 31 December 2015	2,964,191	850,162	832,706	4,647,059

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



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

14. Financial instruments by category

Investment in loan securities

	31 December 2016		31 December 2015	
	Non-current	Current	Non-current	Current
	£	£	£	£
Investment in loan securities	1,220,612	1,302,528	1,759,673	4,588,615
	<u>1,220,612</u>	<u>1,302,528</u>	<u>1,759,673</u>	<u>4,588,615</u>

The Group is required to hold certain loans for a period of time due to US regulations and agreements. In addition, from time to time it can be necessary to acquire loans.

The directors consider that the carrying value of the Group's investment in loan securities approximates to their fair value.

15. Trade and other receivables

	31 December 2016	31 December 2015
	£	£
Trade receivables	850,922	512,417
Other receivables	4,337,364	3,982,303
Prepayments and accrued income	2,281,648	1,097,681
Rent deposit	4,384,412	2,985,172
	<u>11,854,346</u>	<u>8,577,573</u>

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

16. Trade and other payables

	31 December 2016	31 December 2015
	£	£
Trade payables	1,566,865	2,185,862
Taxes and social security costs	2,207,047	941,582
Other creditors	943,704	1,913,563
Accruals and deferred income	5,221,708	5,017,686
Preferred dividends payable	523,756	523,756
	<u>10,463,080</u>	<u>10,582,449</u>

Preferred dividends payable represents the total aggregate maximum amount payable on Series A preferred shares. This amount represents a capped value for the period to 15 September 2013.

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

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

17. Provisions

	Dilapidation £	Valuation reserve £	Total £
At 1 January 2015	115,980	68,318	184,298
<i>Charged / (credited) to income statement:</i>			
Reverse on the discharge of operating lease	(115,980)	-	(115,980)
Provision relating to new premises	294,000	-	294,000
Additional provision	-	1,038,756	1,038,756
At 31 December 2015	294,000	1,107,074	1,401,074
<i>Charged / (credited) to income statement:</i>			
Provision relating to new floor of premises	115,158	-	115,158
Unused amounts reversed	-	(348,562)	(348,562)
At 31 December 2016	409,158	758,512	1,167,670

	31 December 2016 £	31 December 2015 £
Current	758,512	1,107,074
Non-Current	409,158	294,000
	1,167,670	1,401,074

The dilapidation provision represents an estimated cost for dismantling the customisation of offices and restoring the leasehold premises to its original state at the end of the tenancy period. The provision is expected to reverse in 2025.

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

18. Share capital

	31 December 2016 Number	31 December 2016 £	31 December 2015 Number	31 December 2015 £
<i>Called up, allotted and fully paid</i>				
Ordinary shares of £0.001	80,111,105	80,111	79,351,495	79,351
A Ordinary shares of £0.00001	1,439,625	14	1,606,500	16
B Ordinary shares of £0.00001	650,000	7	650,000	7
C Ordinary shares of £0.00001	5,857,600	59	3,473,500	35
D Ordinary shares of £0.00001	1,068,850	10	500,000	5
Series A preferred shares of £0.001	27,392,200	27,392	27,392,200	27,392
Series B preferred shares of £0.001	31,492,900	31,493	31,492,900	31,493
Series C preferred shares of £0.001	32,520,500	32,521	32,520,500	32,521
Series D preferred shares of £0.001	25,595,700	25,596	25,595,700	25,596
Series E preferred shares of £0.001	31,432,400	31,432	31,432,400	31,432
Deferred shares of £0.00001	2,664,461	1	49,500	1
<i>Shares to be issued</i>				
Ordinary shares of £0.001	1,578,850	1,579	1,578,850	1,579
	230,215		229,428	



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

18. Share capital (continued)

During 2016, the Company issued a total of 1,221,173 ordinary shares of £0.001 ranking pari passu with ordinary shares in issue (2015: 2,760,745) on the exercise of employee share options, giving rise to total share premium of £59,748.

In addition, 4,763,436 C ordinary shares and 637,600 D ordinary shares were issued following awards of shares under the Company's employee share plan. These issues have given a rise to a total share premium of £8,920 on the D ordinary shares (the C ordinary shares having been issued at nominal value).

In addition, 166,875 A ordinary shares, 2,379,336 C ordinary shares and 68,750 D ordinary shares were re-designated as deferred shares in the year.

During the year, the Company repurchased 461,563 of its own ordinary shares of £0.001 for £82,836. The nominal value was added to the capital redemption reserve and cost of repurchase was included in accumulated losses, see note 21.

The A Ordinary, B Ordinary, C Ordinary, D Ordinary and Deferred shares do not confer a right to vote. The Ordinary shares and all classes of preference shares confer the right to one vote per share.

19. Share premium account

	2016	2015
	£	£
Balance at 1 January	190,434,579	75,511,303
Premium arising on issue of B ordinary shares	-	2,158
Premium arising on issue of D ordinary shares	8,920	1,660
Premium arising on issue of Series E preferred shares	-	98,657,700
Transaction costs – Series E preferred share issue	-	(3,888,895)
Exercise of options – proceeds received	59,748	251,820
Acquisition of subsidiary	-	19,898,833
Premium expected on the ordinary shares to be issued	5,445,454	5,445,454
Balance at 31 December	195,948,701	195,880,033

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

20. Foreign exchange reserve

	£
Balance at 1 January 2015	1,682,009
Exchange difference on translating the net assets of foreign operations	2,662,203
Balance at 31 December 2015	4,344,212
Exchange difference on translating the net assets of foreign operations	10,847,496
Balance as at 31 December 2016	15,191,708

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent company's functional currency, being pound sterling, are recognised directly in translation reserves.

21. Accumulated losses

	£
Balance at 1 January 2015	(30,442,782)
Loss for the year	(39,577,416)
Balance at 31 December 2015	(70,020,198)
Loss for the year	(46,562,728)
<i>Items of other comprehensive income recognised directly in accumulated losses</i>	
Buyback of ordinary shares	(82,836)
Balance as at 31 December 2016	(116,665,762)

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

22. Share based payment

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

EMI Options

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

Unapproved Options

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

US Options Scheme 2

Options granted under the 'US Option Scheme 2' are unapproved options granted to US employees. The US Options Scheme 2 has the same vesting period as Unapproved Options. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Unvested options are forfeited if the employee leaves the Group before the options vest.

There are also some outstanding options originally granted to US employees under the Endurance Lending Network share option scheme (the Group acquired Endurance Lending Network in 2013). Although these options are over ordinary shares in the Company, the terms of the original scheme apply and so these options are subject to different vesting provisions from the Company's standard vesting provisions.

ESS Shares with 'shadow' Unapproved Options

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

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

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

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

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

22. Share based payment (continued)

Growth Shares with 'shadow' Unapproved Options

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

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

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

Included in operating expenses of the Group is a charge for share based payments of £6.7m (2015: £2.8m) that arises from transactions accounted for as equity-settled share based payment transactions.

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

	EMI Options		Unapproved Options		ESS Shares		Growth Shares		US Options Scheme 2		Total	
	Number and WAEP ¹		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP		Number and WAEP	
	Number	£	Number	£	Number	£	Number	£	Number	£	Number	£
Outstanding at 1 January 2015	5,368,000	0.027	1,349,900	0.055	566,000	0.177	-	-	3,573,200	0.110	10,857,100	0.066
Granted during the period	-	-	1,393,213	0.290	4,563,500	0.284	1,150,000	0.238	4,044,100	0.212	11,150,813	0.254
Combination	-	-	3,897,679	0.022	-	-	-	-	-	-	3,897,679	0.022
Exercised during the period	(915,500)	0.027	-	-	-	-	-	-	(1,845,245)	0.127	(2,760,745)	0.094
Forfeited during the period	(84,550)	0.027	(18,875)	0.221	(49,500)	0.177	-	-	(269,194)	0.106	(422,119)	0.104
Outstanding at 31 December 2015	4,367,950	0.027	6,621,917	0.085	5,080,000	0.273	1,150,000	0.238	5,502,861	0.179	22,722,728	0.147
Outstanding at 1 January 2016	4,367,950	0.027	6,621,917	0.085	5,080,000	0.273	1,150,000	0.238	5,502,861	0.179	22,722,728	0.147
Granted during the period	-	-	3,115,402	0.390	4,763,436	0.390	637,600	0.496	1,625,875	0.496	10,142,313	0.414
Exercised during the period	(609,015)	0.027	(356,317)	0.029	-	-	-	-	(255,841)	0.131	(1,221,173)	0.050
Forfeited during the period	(110,398)	0.027	(2,407,493)	0.091	(2,546,211)	0.317	(68,750)	0.317	(977,444)	0.313	(6,110,296)	0.222
Outstanding at 31 December 2016	3,648,537	0.027	6,973,509	0.222	7,297,225	0.334	1,718,850	0.330	5,895,451	0.247	25,533,572	0.239

1. Weighted average exercise price

Out of the 25,533,572 outstanding options (2015: 22,722,728), 12,351,337 options (2015: 11,966,212) were exercisable at a weighted average price of £0.148 (2015: £0.052)

Options exercised in 2016 resulted in 1,221,173 shares (2015: 2,760,745 shares) being issued at a weighted average price of £0.050 each (2015: £0.094 each).



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

22. Share based payment (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 2016:

Range of exercise prices	EMI Options		Unapproved Options		ESS Shares		Growth Shares		Growth Shares		Total	
	Number and WARCL ²		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0.001 - £0.008	-	-	684,594	8.8	-	-	-	-	-	-	684,594	8.8
£0.008 - £0.043	3,648,537	6.1	2,025,500	7.3	-	-	-	-	143,813	6.4	5,817,850	6.5
£0.043 - £0.279	-	-	466,342	8.0	1,439,625	7.8	650,000	8.0	3,732,175	7.9	6,288,142	7.9
£0.279 - £0.390	-	-	3,797,073	9.2	5,857,600	8.8	1,068,850	9.0	2,019,463	9.2	12,742,986	9.0
	3,648,537	6.1	6,973,509	8.5	7,297,225	8.6	1,718,850	8.6	5,895,451	8.3	25,533,572	8.2

2. Weighted average remaining contractual life

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

Range of exercise prices	EMI Options		Unapproved Options		ESS Shares		Growth Shares		Growth Shares		Total	
	Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL		Number and WARCL	
	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years	Number	Years
£0.001 - £0.008	-	-	820,079	9.8	-	-	-	-	-	-	820,079	9.8
£0.0272	4,367,950	4.6	4,177,500	8.7	-	-	-	-	230,964	4.8	8,776,414	6.1
£0.0272 - £0.2785	-	-	504,125	9.0	1,606,500	9.0	650,000	9.0	4,373,497	8.3	7,134,122	8.1
£0.2785 - £0.3172	-	-	1,120,213	9.7	3,473,500	9.7	500,000	9.7	898,400	9.6	5,992,113	9.1
	4,367,950	4.6	6,621,917	9.1	5,080,000	9.5	1,150,000	9.3	5,502,861	8.4	22,722,728	8.1

Unapproved Options Scheme

The weighted average fair values of options granted under the Unapproved Options Scheme and the US Option Scheme were £0.06 and £0.05 (2015: £0.30 and £0.05) per option respectively. These values were determined using the Black-Scholes valuation model. The significant inputs into the model are as follows:

	2016	2015
Share price (various times during the year)	£0.390	£0.162, £0.317 and £0.390
Exercise price at/(between)	£0.390	£0.176 and £0.317
Expected life	4 years	4 years
Expected volatility	40%	40%
Risk-free interest rate (between)	0.01% and 0.76%	0.30% and 1.40%
Dividend yield	Nil	Nil
Forward exchange rate - US Options (between)	0.6810 and 0.7836	0.6327 and 0.6661

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

22. Share based payment (continued)

ESS Shares and Growth Shares with 'shadow' Unapproved Options

The weighted average fair values of equity-settled options granted under the ESS Shares and Growth Shares with 'shadow' Unapproved Options were £1.78 and £1.97 (2015: £3.01 and £2.79) per option respectively. These values were determined using the Monte Carlo simulation model. The significant inputs into the model are as follows:

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

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

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

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



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

23. Notes to the consolidated statement of cash flows

Cash outflow from operations

	31 December 2016 £	31 December 2015 £
Loss before taxation	(47,185,035)	(39,577,416)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	1,407,210	759,132
Loss on disposal of property, plant and equipment	8,770	367,702
Amortisation of intangible assets	2,765,294	555,535
Impairment of intangible assets	-	126,424
Movement in loan impairment provision	(150,746)	529,948
Movement in dilapidation provision	115,158	-
Interest receivable	(694,413)	(217,270)
Non-cash employee benefits expense – share based payments	6,677,899	2,787,157
Tax credit received	622,307	-
Foreign exchange losses	-	32,044
<i>Changes in working capital:</i>		
Movement in trade and other receivables	(2,665,860)	(2,187,511)
Movement in trade and other payables	(870,001)	1,411,857
Net cash outflow from operating activities	<u>(39,969,417)</u>	<u>(35,412,398)</u>

Cash and cash equivalents

	31 December 2016 £	31 December 2015 £
Cash and bank balances	<u>43,273,308</u>	<u>86,327,737</u>
Balance at 31 December	<u>43,273,308</u>	<u>86,327,737</u>

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

Analysis of changes in net funds

	1 January 2016 £	Cash flow £	Exchange movements £	31 December 2016 £
Cash and bank balances	86,327,737	(46,109,845)	3,055,416	43,273,308
Total net funds	<u>86,327,737</u>	<u>(46,109,845)</u>	<u>3,055,416</u>	<u>43,273,308</u>



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

24. Operating lease arrangements

	31 December 2016 £	31 December 2015 £
Lease payments under operating leases recognised as an expense in the year	4,779,659	2,815,468
Balance at 31 December	4,779,659	2,815,468

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

	31 December 2016 £	31 December 2015 £
Within one year	4,425,152	4,050,121
In the second to fifth year inclusive	16,181,293	16,389,912
After five years	9,070,711	13,566,406
Total at year end	29,677,156	34,006,439

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

25. Dividends per share

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

26. Related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the company and its subsidiaries and associates are disclosed in note 40.

27. Controlling party

In the opinion of the directors, the Group does not have a single controlling party.



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

28. Investments

The group had the following subsidiaries, all of which have been included in these consolidated financial statements. The proportion of the voting rights in subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

Subsidiary Undertakings	Place of incorporation	Proportion of ownership interest	Registered office address
Funding Circle Ltd	UK	100%	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Asset Finance Limited	UK	100%	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Trustee Limited	UK	100%	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Property Finance Limited	UK	100%	71 Queen Victoria Street, London EC4V 4AY
Funding Circle Solutions Limited	UK	100%	71 Queen Victoria Street, London EC4V 4AY
Funding Circle USA, Inc.	USA	100%	747 Front Street, Floor 4, San Francisco, CA 94111
Funding Circle Notes Program, LLC	USA	100%	747 Front Street, Floor 4, San Francisco, CA 94111
FC Marketplace, LLC	USA	100%	747 Front Street, Floor 4, San Francisco, CA 94111
Funding Circle Advisors, LLC	USA	100%	747 Front Street, Floor 4, San Francisco, CA 94111
FC Partners, LLC	USA	100%	747 Front Street, Floor 4, San Francisco, CA 94111
Funding Circle CE GmbH	Germany	100%	Bergmannstraße 72, 10961 Berlin, Germany
Funding Circle Deutschland GmbH	Germany	100%	Bergmannstraße 72, 10961 Berlin, Germany
Funding Circle Connect GmbH	Germany	100%	Bergmannstraße 72, 10961 Berlin, Germany
Juwel 182 VV UG	Germany	100%	Johannisstratse 20, 10117 Berlin
Funding Circle Espana S.L.	Spain	100%	Calle Claudio Coello 124, 28006 Madrid, Spain
Funding Circle Netherlands B.V.	Netherlands	100%	Gustav Mahlerplein 64b, ITO Toren, 1082 MA Amsterdam, Netherlands

Interest in other entities:

Stichting Derdengelden Funding Circle is not a direct or indirect subsidiary of FCHL but is an independent special purpose foundation which is required in the Netherlands to safeguard borrower and investor funds.

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

28. Investments (continued)

The principal activity of these undertakings for the current financial year was as follows:

Subsidiary Undertakings	Principal Activity
Funding Circle Ltd	Facilitate the raising of finance through a website
Funding Circle Asset Finance Limited	Acquisition of assets for asset finance loans
Funding Circle Trustee Limited	Holds security on investors' behalf for all secured loans other than property finance loans. On default, holds the legal interest in loans on trust for investors
Funding Circle Property Finance Limited	Holds security on investors' behalf for all property finance loans
Funding Circle Solutions Limited	Dormant company
Funding Circle USA, Inc.	A web-based lender for small and medium businesses in the United States
Funding Circle Marketplace, LLC	Originator of the borrower loans
Funding Circle Notes Program, LLC	Facilitate fractional market
Funding Circle Advisors, LLC	Investment Manager of ELN Partners LP and ELN Partners Fund I LP
FC Partners, LLC	General Partner of ELN Partners LP and ELN Partners Fund I LP
Funding Circle CE GmbH	Facilitates development, marketing and provision of internet services to affiliated companies of FCCE Group (formerly Zencap group) (E-Commerce concerning different goods)
Funding Circle Deutschland GmbH	Facilitate the raising of finance through a website
Funding Circle Connect GmbH	Acquisition of receivables (issued loans) from the cooperating bank and reselling to investors
Juwel 182 VV UG	Dormant company (under liquidation)
Funding Circle Espana S.L.	Facilitate the raising of finance through a website
Funding Circle Netherlands B.V.	Facilitate the raising of finance through a website

29. Post balance sheet events

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

Furthermore, the decision has been taken to withdraw from the Spanish market, and as such, loan originations ceased in 2017.

In May 2017, Funding Circle Ltd received full authorisation from the UK's Financial Conduct Authority.

In January 2017, the Group completed a Series F equity funding round of £82.0m.

Independent auditors' report to the members of Funding Circle Holdings Limited

Report on the Parent company financial statements

Our opinion

In our opinion, Funding Circle Holdings Limited's parent company financial statements (the "financial statements"):

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

What we have audited

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

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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



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

Other matter

We have reported separately on the group financial statements of Funding Circle Holdings Limited for the year ended 31 December 2016.

A handwritten signature in black ink, appearing to read 'Brian Henderson'.

Brian Henderson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 September 2017



Company balance sheet as at 31 December 2016

	Note	31 December 2016 £	31 December 2015 £
Non-current assets			
Investments in subsidiary undertakings	33	151,758,646	105,959,902
Loans due from subsidiary undertakings	35	13,773,795	11,031,099
		165,532,441	116,991,001
Current assets			
Loans due from subsidiary undertakings	35	12,736,145	12,772,738
Trade and other receivables	34	137,461	7,530
Cash and cash equivalents	39	14,784,029	50,291,508
		27,657,635	63,071,776
Total assets		193,190,076	180,062,777
Current liabilities			
Trade and other payables	36	736,894	794,883
Total liabilities		736,894	794,883
Equity			
Share capital	18	230,215	229,428
Share premium account	19	195,948,701	195,880,033
Capital redemption reserve	19	462	-
Share options reserve	22	9,465,056	2,787,157
Accumulated losses	38	(13,191,252)	(19,628,724)
Total equity		192,453,182	179,267,894
Total equity and liability		193,190,076	180,062,777

The financial statements on pages 54 to 67 were approved by the Board and authorised for issue on 20 September 2017. They were signed on behalf of the Board by:



S Desai
Director

Company registration number 07123934



Company statement of changes in equity for the year ended 31 December 2016

	Note	Share capital £	Share premium account £	Capital redemption reserve £	Share options reserve £	Accumulated losses £	Total equity £
Balance at 1 January 2015		190,686	75,511,303	-	-	(18,678,779)	57,023,210
Loss for the year	32	-	-	-	-	(949,945)	(949,945)
Issue of share capital		31,394	95,024,443	-	-	-	95,055,837
Issue of ordinary shares as consideration for a business combination		5,769	19,898,833	-	-	-	19,904,602
Shares to be issued as consideration for a business combination		1,579	5,445,454	-	-	-	5,447,033
Employee share schemes – value of employee services	22	-	-	-	2,787,157	-	2,787,157
Balance at 31 December 2015		229,428	195,880,033	-	2,787,157	(19,628,724)	179,267,894
Profit for the year	32	-	-	-	-	6,520,308	6,520,308
Issue of share capital	18, 19	1,249	68,668	-	-	-	69,917
Buyback of ordinary shares	21	(462)	-	462	-	(82,836)	(82,836)
Employee share schemes – value of employee services	22	-	-	-	6,677,899	-	6,677,899
Balance at 31 December 2016		230,215	195,948,701	462	9,465,056	(13,191,252)	192,453,182

The notes on pages 57 to 67 form part of these financial statements.

Company statement of cash flows for the year ended 31 December 2016

	Note	31 December 2016	31 December 2015
		£	£
Net cash inflow / (outflow) from operating activities	39	3,306,076	(1,097,072)
Investing activities			
Loans advanced to subsidiary undertakings	40	(15,000,000)	-
Capital contribution to subsidiary undertakings	33	(23,800,662)	(56,143,654)
Net cash outflow from investing activities		(38,800,662)	(56,143,654)
Financing activities			
Proceeds on issue of shares	19	69,943	98,960,439
Preferred share issue costs	19	-	(3,885,896)
Buyback of ordinary shares	21	(82,836)	-
Net cash (outflow)/inflow from financing activities		(12,893)	95,074,543
Net (decrease) / increase in cash and cash equivalents		(35,507,479)	37,833,817
Cash and cash equivalents at the beginning of the year		50,291,508	12,457,691
Cash and cash equivalents at the end of the year		14,784,029	50,291,508

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

30. Significant accounting policies

The separate financial statements of the company are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 1 to the consolidated financial statements except as noted below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Investments in subsidiaries

Investments 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.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment (see note 33 for further details).

31. Financial risk management

The board of directors have overall responsibility for the establishment and oversight of the Company's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and ensure any limits are adhered to. The Company's activities are reviewed regularly and potential risks are considered.

Risk factors

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk (including currency risk, interest rate risk and other price risk); and
- foreign exchange risk.

Principal financial instruments

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

- Loans due from related undertakings
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

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

31. Financial risk management (continued)

Categorisation of financial assets and financial liabilities

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

	Carried at amortised cost – Asset/(liabilities)		Carried at fair value	
	Carrying amount	Fair value	Based on market derived data	Based on individual valuation parameters
	£	£	£	£
Assets per statement of financial position				
Loans due from related undertakings	26,509,940	26,509,940	-	-
Trade and other receivables	25,073	25,073	-	-
Cash and cash equivalents	14,784,029	14,784,029	-	-
Receivables from related undertakings	112,388	112,388	-	-
	41,431,430	41,431,430	-	-
Liabilities per statement of financial position				
Trade and other payables	(736,894)	(736,894)	-	-
	(736,894)	(736,894)	-	-

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

	Carried at amortised cost – Asset/(liabilities)		Carried at fair value	
	Carrying amount	Fair value	Based on market derived data	Based on individual valuation parameters
	£	£	£	£
Assets per statement of financial position				
Loans due from related undertakings	23,803,837	23,803,837	-	-
Trade and other receivables	7,530	7,530	-	-
Cash and cash equivalents	50,291,508	50,291,508	-	-
	74,102,875	74,102,875	-	-
Liabilities per statement of financial position				
Trade and other payables	(794,883)	(794,883)	-	-
	(794,883)	(794,883)	-	-



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

31. Financial risk management (continued)

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include loans due from subsidiary undertakings, cash and cash equivalents, trade and other receivables and trade and other payables. Due to their short-term nature, the carrying value of the above items approximates their fair value.

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from related undertakings and cash and cash equivalents held at banks.

The Company's maximum exposure to credit risk by class of financial asset is as follows:

	31 December 2016 £	31 December 2015 £
<i>Non- Current</i>		
Loans due from related undertakings	13,773,795	11,031,099
<i>Current</i>		
Loans due from related undertakings	12,736,145	12,772,738
<i>Trade and other receivables</i>		
- Prepayments	24,134	3,915
- Rent deposit	940	3,615
- Amounts due from related undertakings	112,388	-
Cash and cash equivalents	<u>14,784,029</u>	<u>50,291,508</u>

The fair value of cash and cash equivalents at 31 December 2016 and 31 December 2015 approximates the carrying value. Cash risk is mitigated as cash and cash equivalents are held with reputable institutions.

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

31. Financial risk management (continued)

Liquidity risk

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

The Company's liquidity position is monitored and reviewed on an ongoing basis by the directors.

The amounts disclosed in the below tables are the contractual undiscounted cash flows.

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

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
	£	£	£	£
At 31 December 2016				
Financial assets				
Trade and other receivables	-	25,073	-	-
Cash and cash equivalents	14,784,029	-	-	-
Amounts due from related undertakings	-	112,388	-	-
Loans due from related undertakings	-	12,736,145	13,773,795	-
	14,784,029	12,873,606	13,773,795	-
Financial liabilities				
Trade and other payables	(59,900)	(676,994)	-	-
	(59,900)	(676,994)	-	-

	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
	£	£	£	£
At 31 December 2015				
Financial assets				
Trade and other receivables	-	7,530	-	-
Cash and cash equivalents	50,291,508	-	-	-
Loans due from related undertakings	-	12,772,738	11,031,099	-
	50,291,508	12,780,268	11,031,099	-
Financial liabilities				
Trade and other payables	(46,775)	(748,108)	-	-
	(46,775)	(748,108)	-	-

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

31. 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 market risk with respect to financial instruments as it does not hold any marketable equity securities.

b. Cash flow and fair value interest rate risk

The Company is not exposed to interest rate risk as it does not have any interest bearing borrowings.

c. Sensitivity analysis

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

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

d. Foreign exchange risk

The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Foreign exchange risk is disclosed in note 2 to the consolidated financial statements.

Capital management

The Company considers its capital to comprise of its equity share capital, share premium, capital redemption reserve and share options reserve less its accumulated losses.

The directors' objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders.

The Company is not subject to any externally imposed capital requirements.

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

32. Company profit for the year

As permitted by the exemption in Section 408 of the Companies Act 2016, the profit and loss account of the Company is not presented as part of these financial statements. The Company has made a total comprehensive profit for the year of £6.5m (2015: loss of £0.9m).

33. Investments

	Investments in subsidiary undertakings £
Cost	
At 1 January 2016	105,959,902
Capital contribution regarding employee services in subsidiaries	6,667,412
Additions	23,800,662
Conversion of Intercompany loans	15,330,670
At 31 December 2016	<u>151,758,646</u>
Net book value	
At 31 December 2016	<u>151,758,646</u>
At 31 December 2015	<u>105,959,902</u>

The investments in subsidiary undertakings are all stated at cost less any provision for impairment.

During the financial year the Company made capital contributions in the form of cash transfers of £15.3m (2015: £25.8m) and £8.5m (2015: £7.4m) to Funding Circle USA Inc. and Funding Circle Continental Europe respectively. The Company also waived an intercompany loan, inclusive of accrued interest, of £12.6m (2015: £23.6m) due from Funding Circle Ltd and capitalised the intercompany loan of £2.7m (2015: £nil) due from Funding Circle Espana S.L. These amounts have increased the value of "Investments in subsidiary undertakings", carried at cost less impairments as per IAS 27, in the Company only accounts.

In addition to the above, the Company recognised a capital contribution of £6.7m representing the service cost for the employees of its subsidiaries, under the Company's share options schemes.

The directors have carried out impairment reviews of the investments. For this purpose, the recoverable amount of each investment was estimated through applying the discounted cash flow model. The model includes the cash flow projections based on the most recent financial budgets approved by the directors for the two financial years immediately following the 2016 year end and extrapolated cash flows for eight years thereafter. Cash flow projections beyond the five year period are extrapolated using the estimated long-term growth rate of 2.5%.

A discount rate of 13% and 15% was used to determine the present value of future cash flows of FCUSA and FC CE respectively. In choosing the appropriate discount rate the weighted average cost of capital of Funding Circle's listed competitors was considered.



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

33. Investments (continued)

Under the above assumptions and revenue growth prospects in the market reflected in the calculations, it was determined that the recoverable value of the Company's investment in its subsidiaries is not less than the amount included in the balance sheet.

Holdings of more than 20%

The Company holds more than 20% of the share capital of a number of companies. A full list of these together with their principal activity is disclosed in note 28 of the consolidated financial statements.

34. Trade and other receivables

	31 December 2016	31 December 2015
	£	£
Amounts due from related undertakings	112,388	-
Other debtors	25,073	7,530
	137,461	7,530

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

35. Loans due from subsidiary undertakings

	31 December 2016	31 December 2015
	£	£
Funding Circle Ltd	13,773,795	11,031,099
Funding Circle CE GmbH	8,195,425	6,648,489
Funding Circle Deutschland GmbH	3,066,050	2,487,409
Funding Circle Connect GmbH	94,036	76,271
Funding Circle Espana S.L.	800,295	3,090,051
Funding Circle Netherlands B.V.	525,152	425,742
Stichting Derdengelden Funding Circle	55,187	44,776
	26,509,940	23,803,837
Less: Non-current portion	13,773,795	11,031,099
Current portion	12,736,145	12,772,738

Amount due from group undertakings

During 2016, the Company continued to operate a loan facility agreement with Funding Circle Ltd (subsidiary company). Under the term of the agreement, the Company will provide an unsecured Sterling term loan facility of a total principal amount not exceeding £20m (2015: £20m) to Funding Circle Ltd. Any drawn amount under the facility bears an interest of 3.5% above the base rate of the Bank of England and is repayable with the principal amount at the end of the facility term of five years on 23 November 2020.

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

35. Loans due from subsidiary undertakings (continued)

During the year the Company has provided £15.0m (2015: £23.0m) of additional funding under the facility agreement and agreed to waive a loan to the value of £12.6m (2015: £23.6m), inclusive of accrued interest. Total interest income of £0.4m (2015: £0.5m) has been recognised in the Company statement of comprehensive income. The carrying amount of this receivable approximates to its fair value.

The Company is also due £12.7m (2015: £12.8m) representing a cumulative loan balance including interest from its FC CE subsidiaries. These amounts arose on the restructuring of intercompany investments and loans balances that initially existed among the dormant Luxembourg incorporated partnerships and local Opcos in Germany, Spain and the Netherlands. Consequent to above restructuring all intercompany investments and intercompany loan balances were transferred from the dormant entities to the Company. The individual loan balances have been consolidated during the year and the new loan carries interest of 3.5% above the base rate of the Bank of England, and is repayable on demand.

During the year, the Company also agreed to capitalise the intercompany loan due from Funding Circle Espana S.L. to the value of £2.7m (2015: nil), inclusive of accrued interest.

36. Trade and other payables

	31 December 2016 £	31 December 2015 £
Trade payables	59,386	46,638
Accruals and deferred income	153,238	224,352
Other creditors	514	137
Preferred dividends payable	523,756	523,756
	736,894	794,883

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

37. Share capital and share premium

The movement on these items are disclosed in note 18 and 19 to the consolidated financial statements.



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

38. Accumulated losses

	£
Balance at 1 January 2015	(18,678,779)
Loss for the year	(949,945)
Balance at 31 December 2015	(19,628,724)
Profit for the year	6,520,308
<i>Items of other comprehensive income recognised directly in accumulated losses</i>	
Buyback of ordinary shares	(82,836)
Balance as at 31 December 2016	(13,191,252)

39. Notes to the Company statement of cash flows

Cash outflow from operating activities

	31 December 2016 £	31 December 2015 £
Profit/(Loss) before taxation	6,520,308	(949,945)
<i>Adjustments for:</i>		
Foreign exchange (gains)/losses	(2,170,137)	464,405
Interest receivable	(1,068,988)	(518,709)
Interest payable	-	27,695
Non-cash employee benefits expense – share based payments	10,486	903
Bad debt	-	1,540
<i>Changes in working capital:</i>		
Movement in trade and other receivables	(22,652)	6,576
Movement in trade and other payables	37,059	(129,537)
Net cash inflow/(outflow) from operations	3,306,076	(1,097,072)

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

39. Notes to the Company statement of cash flows (continued)

Cash and cash equivalents

	1 January 2016	Cash flow	31 December 2016
	£	£	£
Cash and bank balances	50,291,508	(35,507,479)	14,784,029
Total net funds	50,291,508	(35,507,479)	14,784,029

These comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The carrying amount of cash balances approximates their fair value.

40. Related parties

	Amounts owed by related parties		Amounts owed to related parties	
	2016	2015	2016	2015
	£	£	£	£
<i>Short-term payables/receivables:</i>				
Funding Circle Ltd	107,279	31,099	-	-
Funding Circle Property Finance Limited	2,580	-	-	-
Funding Circle CE GmbH	2,529	-	-	-
<i>Intercompany loans:</i>				
Funding Circle Ltd	13,773,795	11,000,000	-	-
Funding Circle CE GmbH	8,195,425	6,648,489	-	-
Funding Circle Deutschland GmbH	3,066,050	2,487,409	-	-
Funding Circle Connect GmbH	94,036	76,271	-	-
Funding Circle Espana S.L.	800,295	3,090,051	-	-
Funding Circle Netherlands B.V.	525,152	425,742	-	-
Stichting Derdengelden Funding Circle	55,187	44,776	-	-
	26,622,328	23,803,837	-	-

During the year, the Company paid expenses for amounts of £76,180 (2015: £32,403), £2,580 (2015: £nil) and £2,529 (2015: £nil) on behalf of Funding Circle Ltd, Funding Circle Property Finance Limited and Funding Circle CE GmbH respectively. The Company also accepted payments of £nil (2015: £62,454) to third parties paid on its behalf by Funding Circle Ltd

As at the year-end, the Company was owed a cumulative amount of £13.7m (2015: £11.0m) and £12.7m (2015: £12.8m) from loans with Funding Circle Ltd and entities within the Continental Europe cash-generating unit respectively, see note 35 for further detail.



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

41. Parent company guarantee – exemption from audit for subsidiary companies

The Company has given a guarantee to the following subsidiary companies in respect of the year ending 31 December 2016. In accordance with Section 479A of the UK Companies Act 2006 (the “Act”), they are exempt from the requirements of the Act relating to the audit of individual company accounts. The guarantee effectively means that the Company will discharge all outstanding liabilities of the subsidiary companies at 31 December 2016 should the subsidiary be unable to satisfy them.

Company	Registration Number
Funding Circle Solutions Limited	8896644
Funding Circle Asset Finance Limited	7832868

42. Remuneration of key management personnel

The remuneration of key personnel is disclosed in note 7 to the consolidated financial statements.