Funding Circle

Funding Circle Holdings plc
Full Year 2019 Results

Embargoed until 7.00am, 12 March 2020

THIS ANNOUNCEMENT INCLUDES INSIDE INFORMATION AS DEFINED IN ARTICLE 7 OF THE MARKET ABUSE REGULATION NO. 596/2014

Funding Circle Holdings plc ("Funding Circle"), the leading small and medium enterprise ("SME") loans platform in the UK, US, Germany and the Netherlands, today announces results for the year ended 31 December 2019 ("2019").

Samir Desai CBE, CEO and Founder, said:

"In 2019 we grew loans under management to a record £3.7bn up 19% year on year. The actions we took in 2019, in response to the uncertain economic outlook, reduced growth but improved investor returns and were the right response for the long-term benefit of the company and our customers.

We start the year in a stronger position as a business and confident in delivering an accelerated pathway to profitability targeting Adjusted EBITDA break-even for the whole business in the second half of 2020.

Our UK business was profitable in the second half of 2019 and loans under management in the US continues to follow a similar growth trajectory to the UK. We are reorganising our Developing Markets business, which represents c.8% of Group revenue but c.60% of Group Adjusted EBITDA losses in 2019, to deliver a better and more profitable model.

Our new instant decision lending platform in the UK and the US has begun to roll out and will provide a step-change in the borrowing experience for SMEs."

Financial Summary:

- Revenue of £167.4 million (2018: £141.9 million) up 18% despite a challenging economic environment.
- Adjusted EBITDA[1] of negative £27.5 million (2018: negative £23.4 million) with loss margin of 16% (2018: 16%).
- UK business operating profit of £3.0 million in H2 2019 (H2 2018: negative £5.4 million). The UK business represents c.65% of Group revenue.
- Loss before taxation and exceptional costs of £49.9 million (2018: £45.0 million)[2]. Loss before taxation of £84.2 million (2018: £50.9 million)[2] including a non-cash exceptional write-down of £34.3 million of goodwill and intangible assets related to the Developing Markets.
- Basic loss per share of 24.4 pence (2018 loss: 18.2 pence) [2].
- Free cash outflow[3] of £49.4 million (2018 outflow: £40.9 million).
- Net assets of £319.0 million, (2018: £401.0 million) [2], including a mix of cash and short and long term investments.

Operating and Strategic Summary:

- **Leading SME loans platform:**
  - Record loans under management of £3.73 billion (2018: £3.15 billion), representing year-on-year growth of 19%.
  - Originations of £2.35 billion (2018: £2.29 billion), representing year-on-year growth of 3%.
  - c.80,000 small businesses have accessed funding through the Funding Circle platform as at the end of 2019.
  - Net promoter score between 80-90 for borrowers in the UK and US.
- **Improving returns attracting more funds to the platform**

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[1] Adjusted EBITDA represents operating profit before depreciation and amortisation, share based payments, foreign exchange gains / (losses), associated social security costs and exceptional items. A reconciliation between adjusted EBITDA and operating profit is shown in the Business Review.

[2] The year to 31 December 2018 has been restated for the impact of IFRS16 – refer to note 11.

[3] Free cash flow has been redefined in the year and represents net cash flows from operating activities including the cash cost of purchasing intangible assets, property plant and equipment, interest received, IPO costs in operating activities and the payment of lease liabilities. The 2018 numbers have been restated for this definition. A reconciliation to the statutory measure can be found in the Business Review.

  - Proactive actions taken in 2019 to reduce conversion (loans/applications) show early signs of improving net returns for investors. Investor returns are expected to deliver 5.0-7.8%[4] in the UK and US for loans originated in 2019.
  - New investor products launched in 2019 in line with strategy to diversify funding sources:
    - Successfully launched the Funding Circle-sponsored ABS Bond programme in 2019 with two securitisations completed and 30 institutional investors joining the Funding Circle platform.
    - Two new private funds launched in 2019 with UK Private Fund raising an initial £30 million of lending commitments from the Merseyside Pension Fund.
- **Completed initial build of Instant Decision lending platform**
  - New instant decision lending platform drives superior customer experience and competitive advantage. The new platform includes historical data on c.1 million loan applications from the last ten years and is powered by Funding Circle's 8th generation of AI-enabled credit models.
  - Initial pilots rolled out in Q4 2019 in the UK and first loans took on average 6 minutes from application to approval. On track to roll out to c.50% of borrowers by the end of 2020.
- **Refining model in Developing Markets to better serve SMEs**
  - Reorganising German and Dutch businesses, which are developing markets for Funding Circle, and represent 8% of revenue and 60% of Adjusted EBITDA losses, to originate loans for local lenders within each market compared to originating loans to institutional and retail investors.
  - New model accelerates Group path to profitability with lower overall losses in both countries.

Outlook:

- Focus on improving conversion across the platform, keeping net returns attractive and delivering profitable growth.
- Combined UK and US revenue to grow by c.15%, skewed to H2 2020 due to seasonality and lapping credit tightening actions taken in H1 2019.
- The reorganised Developing Markets[5] contributing c.£7m of revenue in 2020, weighted to H1 2020 from the wind-down of the existing model with H2 2020 seeing the scaling of the new model from a low base.
- Targeting Group Adjusted EBITDA break-even in H2 2020 reflecting operational leverage as the business scales.
- Group Adjusted EBITDA losses for the year to halve benefiting from the new approach in the Developing Markets and marketing spend falling modestly as a percentage of revenue.
- Trading for the year has started well. We continue to assess the possible impact of COVID-19 on borrowers and investors. We have not seen an impact of the virus on recent trading, but we are monitoring the situation closely.

Analyst presentation:

A presentation for analysts will be held today via webcast at 9:30am. Please contact fundingcircle@headlandconsultancy.com if you wish to attend.

An on-demand replay will also be available on the Funding Circle website following the presentation.

Media Enquiries:

Funding Circle

David de Koning - Director of Investor Relations and Communications (0203 927 3893)

Headland Consultancy

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[4] For loans originated in 2019.

[5] Developing Markets exceptional cash restructuring costs of c.£5 million.

Funding Circle

Mike Smith / Stephen Malthouse (020 3805 4822)

About Funding Circle:

Funding Circle (LSE: FCH) is a global SME loans platform, connecting SMEs who want to borrow with investors and lenders in the UK, US, Germany and the Netherlands. Since launching in 2010, investors and lenders across Funding Circle's geographies - including retail investors, banks, specialty finance companies asset management companies, insurance companies, government-backed entities and funds - have lent more than £8.5 billion to 80,000 businesses globally.

Forward looking statements and other important information

This document contains forward looking statements, which are statements that are not historical facts and that reflect Funding Circle's beliefs and expectations with respect to future events and financial and operational performance. These forward looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the control of Funding Circle and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. Nothing contained within this document is or should be relied upon as a warranty, promise or representation, express or implied, as to the future performance of Funding Circle or its business. Any historical information contained in this statistical information is not indicative of future performance. The information contained in this document is provided as of the dates shown. Nothing in this document should be construed as legal, tax, investment, financial, or accounting advice, or solicitation for or an offer to invest in Funding Circle.

Market Analysis and Strategy

As we highlighted in the Half Year 2019 results, last year we saw higher risk band loans showing lower returns due to the macro environment. In response to this trend, we proactively tightened lending in these higher risk bands. This affected the overall conversion of borrower applications and our revenue growth expectations for the year, but protected net returns to investors. The early signs have been positive. Investor returns are expected to deliver 5.0-7.8% in the UK and US for loans originated in 2019.

In 2020, we have a number of initiatives we are focusing on to improve conversion whilst keeping net returns attractive for investors.

2020 strategy:
At Funding Circle our mission is to build the place where small businesses get the funding they need to win. Underpinning this mission is our three year strategic plan, FC2020, which we launched at the start of 2018 and acts as the foundation to achieving our long-term goals.

The FC2020 plan is based on four key pillars that focus on how we service and delight our customers:

- **Drive a better borrower experience**
    - In 2019 we were pleased to complete the initial build of our new instant decision lending platform and start rolling out initial pilots for instant decision loans.
    - We also began a trial adding other lenders to our platform to fund loans outside of our core term loan product. This helps more small businesses to access finance.
- **Invest in data, tech and analytics**
    - In 2019, we created a data lake repository for all Funding Circle data that underpinned the build of our new instant decision lending platform. The new data lake repository contains data on 26 million businesses and 2 billion data points.
- **Diversify funding sources**
    - As part of the Group's strategy to diversify its funding sources, we launched new investor products in 2019.
        - *Funding Circle-sponsored ABS bonds:* This product provides access to institutional investors who can only, or prefer to, purchase asset-backed bonds. In 2019, the Group

completed two securitisations – one in the US and one in the UK – with a number of new investors joining the Funding Circle platform, including: asset managers; insurance companies; pension funds and sovereign wealth funds.

    - *Private funds:* The Group launched private funds in both the UK and Developing Markets allowing institutional investors to gain access to loans through a regulated fund structure that lends through the Funding Circle platform rather than lending directly to SME borrowers.

  - Together, these new products have given the Group two specific benefits being: increased flexibility in its funding sources; and a new revenue stream allowing for a higher return on the Group's equity.

- **Build a highly scalable global business**

  - In 2019 we continued the process of unifying all of our geographies onto a single ledger and loan management platform globally. We also upgraded the US system to include automated client money reconciliations. In 2020, we plan to begin implementation of these global systems in the UK, which will continue to strengthen our position with regulatory bodies and investors.

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Business Review

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

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

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

The Group's loss before taxation and exceptional costs was £49.9m (2018: £45.0m). Loss before taxation of £84.2m (2018 restated: £50.9m) including a non-cash exceptional write-down of £34.3m of goodwill and intangible assets related to the Developing Markets.

Geographic highlights

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

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

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

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

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

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

We sponsored the securitisation of $210 million of SME loans in August 2019 with a further securitisation of c.$250 million occurring in January 2020.

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

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

million.

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

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

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

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

Adoption of IFRS 16

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

Revenue

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

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

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

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

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

Operating expenses

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

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

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

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

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

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

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

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

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

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

Segment adjusted EBITDA and adjusted EBITDA

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

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

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

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

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

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

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

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

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

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

Balance Sheet and Liquidity

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

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

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

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

In circumstances where the majority of the most junior unrated bonds have been retained by the balance sheet date, Funding Circle is required to recognise and consolidate onto its balance sheet all the securitisation SPV's SME loans and bond liabilities. This is because the junior bonds rank beneath the senior bonds and therefore have the greatest risk and reward. As at 31 December 2019, in both the UK and the US, Funding Circle has retained a significant interest in the junior tranches of each securitisation SPV and has consolidated these vehicles in addition to the warehouse SPVs.

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Accordingly the Group balance sheet includes £708.6 million of SME loans and £617.3 million of related bank and bond debt plus other associated assets and liabilities from these SPVs.

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

Cash flow

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

Free cash flow, which is an alternative performance measure*,* has been redefined in the year following the new funding products, implementation of IFRS 16 and restatement of IPO cost presentation and therefore the comparatives have been restated (refer note 10). It represents the net cash flows from operating activities plus the cost of purchasing intangible assets, property plant and equipment, lease payments, interest received and excluding IPO costs presented in operating activities. It excludes the warehouse and securitisation cash flows as well as the funding of these investments.

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

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

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

Subsequent events

In March 2020, the Group announced that it is reorganising the continental European businesses of Germany and the Netherlands (the Developing Markets segment) and centralising the operations in London. The anticipated restructuring costs of this reorganisation are estimated at c.£5.0 million.

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Statement of Directors' Responsibilities

The Funding Circle Report and Accounts for year end 31 December 2019 contains a responsibility statement in the following form:

Each of the Directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and profit of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each of the Directors in office as at the date of the approval of the Annual Report and Accounts:

- 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.

By order of the Board

Samir Desai, Chief Executive Officer

Sean Glithero, Chief Financial Officer

12 March 2020

Funding Circle

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	31 December 2019 £m	31 December 2018 (restated) £m
Transaction fees		**121.2**	112.9
Servicing fees		**30.4**	24.9
Net investment income:		**10.5**	–
- Investment income		*28.3*	–
- Investment expense		*(7.9)*	–
- Fair value gains/(losses)		*(9.9)*	–
Other fees		**5.3**	4.1
Net income	**2**	**167.4**	141.9
People costs		**(90.3)**	(79.2)
Marketing costs	3	**(66.5)**	(57.8)
Depreciation and amortisation	3	**(14.9)**	(12.5)
Loan repurchase charge		**(6.5)**	(2.6)
Impairment (exceptional)	4	**(34.3)**	–
IPO adviser costs (exceptional)	4	**–**	(5.9)
Other costs		**(39.6)**	(34.7)
Operating expenses	**3**	**(252.1)**	(192.7)
Operating loss		**(84.7)**	(50.8)
Finance income		**1.8**	0.9
Finance costs		**(1.2)**	(1.0)
Share of net loss of associates		**(0.1)**	–
Loss before taxation		**(84.2)**	(50.9)
Income tax		**(0.5)**	1.4
Loss for the year		**(84.7)**	(49.5)
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		**(7.7)**	2.4
Total comprehensive loss for the year		**(92.4)**	(47.1)
Total comprehensive loss attributable to:			
Owners of the Parent		**(92.4)**	(47.1)
Loss per share			
Basic and diluted loss per share	5	**(24.4)p**	(18.2)p

All amounts relate to continuing activities.

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 11.

Funding Circle

Consolidated balance sheet

as at 31 December 2019

	Note	**31 December 2019 £m**	31 December 2018 (restated) £m
Non-current assets			
Goodwill	6	**11.3**	42.3
Intangible assets	7	**23.6**	21.5
Property, plant and equipment	8	**39.0**	25.2
Investments in associates		**13.2**	–
Investment in SME loans (other)	9	**1.7**	0.3
		88.8	89.3
Current assets			
Investment in SME loans (curing)	9	**–**	4.7
Investment in SME loans (warehouse)	9	**342.0**	–
Investment in SME loans (securitised)	9	**366.6**	–
Trade and other receivables		**33.6**	23.0
Cash and cash equivalents	10	**164.5**	333.0
		906.7	360.7
Total assets		**995.5**	450.0
Current liabilities			
Trade and other payables		**19.7**	19.3
Bank borrowings	9	**265.8**	–
Bonds	9	**348.7**	–
Short-term provisions		**3.1**	3.8
Lease liabilities	8	**8.5**	5.0
		645.8	28.1
Non-current liabilities			
Long-term provisions		**0.9**	0.8
Lease liabilities	8	**29.8**	20.1
Total liabilities		**676.5**	49.0
Equity			
Share capital		**0.3**	0.3
Share premium account		**292.3**	291.8
Foreign exchange reserve		**8.0**	15.7
Share options reserve		**11.9**	6.0
Retained earnings		**6.5**	87.2
Total equity		**319.0**	401.0
Total equity and liabilities		**995.5**	450.0

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 11.

Consolidated statement of changes in equity

for the year ended 31 December 2019

	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	(Accumulated losses)/ retained earnings £m	Total equity £m
Balance at 1 January 2018 as previously reported	0.2	278.0	13.3	13.9	(153.2)	152.2
Impact of adoption of IFRS 16 (note 11)	–	–	–	–	(1.2)	(1.2)
Restated balance at 1 January 2018	0.2	278.0	13.3	13.9	(154.4)	151.0
Loss for the year	–	–	–	–	(49.5)	(49.5)
Other comprehensive income						
Exchange differences on translation of foreign operations	–	–	2.4	–	–	2.4
Transactions with owners						
Transfer of share option costs	–	–	–	(13.0)	13.0	–
Capital reduction	–	(278.1)	–	–	278.1	–
Issue of share capital	0.1	301.0	–	–	–	301.1
Equity issuance costs	–	(9.1)	–	–	–	(9.1)
Employee share schemes – value of employee services	–	–	–	5.1	–	5.1
Balance at 31 December 2018 (restated)	0.3	291.8	15.7	6.0	87.2	401.0
Loss for the year	–	–	–	–	(84.7)	(84.7)
Other comprehensive loss						
Exchange differences on translation of foreign operations	–	–	(7.7)	–	–	(7.7)
Transactions with owners						
Transfer of share option costs	–	–	–	(4.0)	4.0	–
Issue of share capital	–	0.5	–	–	–	0.5
Employee share schemes – value of employee services	–	–	–	9.9	–	9.9
Balance at 31 December 2019	**0.3**	**292.3**	**8.0**	**11.9**	**6.5**	**319.0**

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 11.

Funding Circle

Consolidated statement of cash flows

for the year ended 31 December 2019

	Note	**31 December 2019 £m**	31 December 2018 (restated) £m
Net cash outflow from operating activities	10	**(27.0)**	(30.6)
Investing activities			
Purchase of intangible assets		**(14.5)**	(11.0)
Purchase of property, plant and equipment		**(2.7)**	(2.3)
Cash receipts from SME loans (curing)		**4.7**	0.2
Purchase of SME loans (other)		**(1.5)**	(1.3)
Purchase of SME loans (warehouse phase)		**(381.2)**	–
Purchase of SME loans (securitised)		**(414.5)**	–
Cash receipts from SME loans (warehouse phase)		**32.5**	–
Cash receipts from SME loans (securitised)		**37.4**	–
Investment in associates		**(13.9)**	–
Interest received		**1.9**	0.9
Net cash outflow from investing activities		**(751.8)**	(13.5)
Financing activities			
Proceeds from bank borrowings		**462.1**	–
Repayment of bank borrowings		**(192.7)**	–
Proceeds from issuance of bonds		**379.5**	–
Payment of bond liabilities		**(30.1)**	–
Preferred dividend payment		**–**	(0.5)
Proceeds on the issue of ordinary shares on IPO		**–**	300.0
Payment of IPO adviser costs	4	**–**	(9.1)
Proceeds from the exercise of share options		**0.7**	1.1
Payment of lease liabilities		**(7.1)**	(3.8)
Net cash inflow from financing activities		**612.4**	287.7
Net (decrease)/increase in cash and cash equivalents		**(166.4)**	243.6
Cash and cash equivalents at the beginning of the year		**333.0**	88.9
Effect of foreign exchange rate changes		**(2.1)**	0.5
Cash and cash equivalents at the end of the year		**164.5**	333.0

The year to 31 December 2018 has been restated for the impact of IFRS 16 Leases – refer to note 11 and to re-present certain IPO adviser costs within operating cash flows – refer to note 10.

The impact of exceptional items on the consolidated statement of cash flows is detailed in note 4.

Funding Circle

Notes

1. Basis of preparation

The results for the year ended 31 December 2019 have been extracted from the audited financial statements of Funding Circle Holdings plc. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on a going concern basis.

The financial information in this statement does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2019, on which the auditors have given an unqualified audit report, have not yet been filed with the Registrar of Companies.

Except as described below in Note 11, the principal accounting policies applied in the preparation of the consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those financial statements.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the r eported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

2. Segmental information

IFRS 8 Operating Segments requires the Group to determine its operating segments based on information which is provided internally. Based on the internal reporting information and management structures within the Group, it has been determined that there are three geographic operating segments supported by two centralised cost segments. Reporting on this basis is reviewed by the Global Leadership Team ("GLT"), which is the chief operating decision maker ("CODM"). The GLT function is made up of the Executive Directors and other senior management and is responsible for the strategic decision making of the Group.

The five reportable segments consist of the three geographic segments: the United Kingdom, the United States and Developing Markets, plus the two centralised cost segments: global product development and corporate costs. The Developing Markets segment includes the Group's less mature marketplaces in Germany and the Netherlands.

The GLT measures the performance of each segment by reference to a non-GAAP measure, adjusted EBITDA, which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items (see note 4). Together with operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better interpretation of the underlying performance of the business.

Capital expenditure is predominantly managed centrally and depreciation and amortisation are not allocated to individual segments for decision making and accordingly have not been allocated to segments.

	31 December 2019				31 December 2018 (restated)			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Net income ("Revenue")	**108.5**	**45.6**	**13.3**	**167.4**	93.6	37.1	11.2	141.9
Segment adjusted EBITDA	**34.0**	**(10.3)**	**(12.5)**	**11.2**	24.6	(5.7)	(6.8)	12.1
Product development				**(26.4)**				(24.5)
Corporate costs				**(12.3)**				(11.0)
Adjusted EBITDA				**(27.5)**				(23.4)
Depreciation and amortisation				**(14.9)**				(12.5)
Share-based payments and social security costs				**(8.0)**				(8.6)
Foreign exchange loss				**–**				(0.4)
Exceptional items (note 4)				**(34.3)**				(5.9)
Operating loss				**(84.7)**				(50.8)

Revenue by type

In addition to the segmental reporting of performance under IFRS8, the table below sets out net income by its type:

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

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3. Operating expenses

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

4. Exceptional items

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

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

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

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

5. Loss per share

Basic loss per share amounts are calculated by dividing the loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

There is no difference in the weighted average number of shares used in the calculation of basic and diluted loss per share as the effect of all potentially dilutive shares outstanding was anti-dilutive.

The following table reflects the income and share data used in the basic and diluted loss per share computations:

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

6. Goodwill

	Total £m
Cost and carrying amount	
At 1 January 2018	41.3
Exchange differences	1.0
At 31 December 2018	42.3
At 1 January 2019	42.3
Impairment charge (note 4)	(29.0)
Exchange differences	(2.0)
At 31 December 2019	**11.3**

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

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. At the balance sheet date, the Group had two CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries and the German and Dutch businesses (Funding Circle Continental Europe or "FCCE") and its subsidiaries to which goodwill is attached. The goodwill associated with each CGU is shown below.

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

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

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

The Group prepares a five-year management plan for its operations, which is used in the value in use

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

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

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

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

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

7. Intangible assets

	Capitalised development costs	Computer software	Other intangibles	Total
	£m	£m	£m	£m
Cost				
At 1 January 2018	23.0	0.6	1.3	24.9
Exchange differences	0.8	–	–	0.8
Additions	10.8	0.2	–	11.0
Reclassification	0.5	–	–	0.5
Disposals	(0.9)	–	–	(0.9)
At 31 December 2018	34.2	0.8	1.3	36.3
At 1 January 2019	34.2	0.8	1.3	36.3
Exchange differences	(0.5)	–	(0.2)	(0.7)
Additions	14.3	0.2	–	14.5
Reclassification	–	–	–	–
Disposals	(0.7)	–	–	(0.7)
At 31 December 2019	**47.3**	**1.0**	**1.1**	**49.4**
Accumulated amortisation				
At 1 January 2018	7.3	0.3	1.1	8.7
Exchange differences	0.4	–	–	0.4
Reclassification	0.5	–	–	0.5
Charge for the year	6.1	–	–	6.1
Disposals	(0.9)	–	–	(0.9)
At 31 December 2018	13.4	0.3	1.1	14.8
At 1 January 2019	13.4	0.3	1.1	14.8
Exchange differences	(0.1)	–	(0.1)	(0.2)
Reclassification	(0.3)	0.3	–	–
Charge for the year	6.9	0.2	–	7.1
Impairment	4.6	–	–	4.6
Disposals	(0.5)	–	–	(0.5)
At 31 December 2019	**24.0**	**0.8**	**1.0**	**25.8**
Carrying amount				
At 31 December 2019	**23.3**	**0.2**	**0.1**	**23.6**
At 31 December 2018	20.8	0.5	0.2	21.5

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

As disclosed in note 11, the Group has adopted IFRS 16, effective from 1 January 2019, using the fully retrospective approach and comparative information has therefore been restated. The Group has right-of-use assets which comprise property leases held by the Group. Information about leases for which the Group is a lessee is presented below.

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

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

Reconciliation of amount recognised in the balance sheet

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

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Lease liabilities

Amounts recognised on the balance sheet were as follows:

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

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

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

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

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

9. Financial risk management

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

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

Risk factors

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

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

Principal financial instruments

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

- investments;
- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- bank borrowings;
- bonds; and
- lease liabilities.

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Categorisation of financial assets and financial liabilities

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

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

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

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

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

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

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, investments in SME loans (Other) and trade and other payables. Due to their short-term nature, the carrying value of each of the above financial instruments approximates to their fair value.

Financial instruments measured at fair value

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

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

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

The fair value of financial instruments that are not traded in an active market (for example, investments in SME loans) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The investments categorised as level 2 all relate to investments in SME loans (curing). These are typically held for two to three days before being transferred to independent investors at the principal amount. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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

	Fair value measurement using			
31 December 2018	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	Total £m
Financial assets				
Investment in SME loans (curing)	–	4.7	–	4.7
Cash and cash equivalents	150.0	–	–	150.0
	150.0	4.7	–	154.7

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

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

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

Bonds represents the unrated tranches of bond liabilities measured at fair value through profit and

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

The Group has undrawn committed borrowing facilities available at 31 December 2019 of £90.5 million (2018: £nil) which are due to expire in March 2021 in the US and in the UK no further drawdowns can be made under this facility from May 2020 and must be repaid by June 2028. The use of the facilities is restricted to the purchase of loans for the purpose of securitisation.

10. Notes to the consolidated statement of cash flows

Cash outflow from operations

	31 December 2019 £m	31 December 2018 (restated) £m
Loss before taxation	**(84.2)**	(50.9)
Adjustments for		
Depreciation of property, plant and equipment	**7.8**	6.4
Amortisation of intangible assets	**7.1**	6.1
Impairment of goodwill	**29.0**	–
Impairment of intangible and tangible assets	**5.3**	–
Interest receivable	**(1.8)**	(0.9)
Interest payable	**1.2**	1.0
Non-cash employee benefits expense – share-based payments and associated social security costs	**7.7**	8.1
Fair value and other non-cash adjustments	**9.9**	–
Tax credit cash received	**–**	1.4
Movement in provisions	**(0.4)**	0.2
Other non-cash movements	**(0.2)**	–
Changes in working capital		
Movement in trade and other receivables	**(9.1)**	(8.1)
Movement in trade and other payables	**0.7**	6.1
Net cash outflow from operating activities	**(27.0)**	(30.6)

In 2018, total IPO adviser costs were £15.0 million, of which £5.9 million related to the secondary shares traded on admission and other costs attributable to the listing and £9.1 million related to the issuance of new shares. Both cash out flows were presented in net cash flow from financing activities but in recent discussions, the Financial Reporting Council have highlighted that the cash flow presentation of the £5.9 million in respect of the secondary shares and other costs did not satisfy the requirements of IAS 7 "Statement of Cash Flows". Accordingly, these have been re-presented within net cash flow from operating activities.

In addition to the above, the cash flow statement was restated for IFRS 16, refer to note 11.

Cash and cash equivalents

	31 December 2019 £m	31 December 2018 £m
Cash and cash equivalents	**164.5**	333.0

The cash and cash equivalents balance is made up of cash, money market funds and bank deposits. The carrying amount of these assets is approximately equal to their fair value. Included within cash and cash equivalents above is cash of £1.2 million (2018: £0.4 million) which is restricted in use in the event of rental payment defaults and cash held in the securitisation SPVs of £14.2 million (2018: £nil) which has been collected for on payment to bond holders and is therefore restricted in its use. At 31 December 2019, money market funds totalled £46.0 million (2018: £150.0 million).

11. Significant changes in the current reporting year

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

i) Asset backed securities ("ABS")

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

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

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

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

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

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

ii) Private funds

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

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Changes in accounting policy and disclosures

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

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

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

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

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 3 Business Combinations, definition of a business	Business combinations	1 January 2020
Amendments to IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, definition of material	Definition of material	1 January 2020
Revised Conceptual Framework for Financial Reporting & Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28	Associates and joint ventures	1 January 2020

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

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

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

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

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

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

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

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

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS16 £m	**IFRS 16 £m**	**As reported £m**	Amounts without adoption of IFRS16 £m	IFRS 16 £m	As reported £m
Depreciation and amortisation	**(9.4)**	**(5.5)**	**(14.9)**	(8.2)	(4.3)	(12.5)
Other costs	**(46.2)**	**6.6**	**(39.6)**	(39.8)	5.1	(34.7)
Operating expenses	**(253.2)**	**1.1**	**(252.1)**	(193.5)	0.8	(192.7)
Operating loss	**(85.8)**	**1.1**	**(84.7)**	(51.6)	0.8	(50.8)
Finance costs	**—**	**(1.2)**	**(1.2)**	—	(1.0)	(1.0)
Loss before taxation	**(84.1)**	**(0.1)**	**(84.2)**	(50.7)	(0.2)	(50.9)
Loss for the year	**(84.6)**	**(0.1)**	**(84.7)**	(49.3)	(0.2)	(49.5)
Other comprehensive income:						
Total comprehensive loss for the year	**(92.3)**	**(0.1)**	**(92.4)**	(46.9)	(0.2)	(47.1)
Total comprehensive loss attributable to						
Owners of the Parent	**(92.3)**	**(0.1)**	**(92.4)**	(46.9)	(0.2)	(47.1)

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

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS16 £m	**IFRS 16 £m**	**As reported £m**	Amounts without adoption of IFRS16 £m	IFRS 16 £m	As reported £m
Non-current assets						
Property, plant and equipment	**5.0**	**34.0**	**39.0**	5.3	19.9	25.2
Total assets	**961.5**	**34.0**	**995.5**	430.1	19.9	450.0
Current liabilities						
Trade and other payables	**22.7**	**(3.0)**	**19.7**	23.1	(3.8)	19.3
Lease liabilities	**—**	**8.5**	**8.5**	—	5.0	5.0
	640.3	**5.5**	**645.8**	26.9	1.2	28.1
Non-current liabilities						
Lease liabilities	**—**	**29.8**	**29.8**	—	20.1	20.1
Total liabilities	**641.2**	**35.3**	**676.5**	27.7	21.3	49.0
Equity						
Retained earnings	**7.8**	**(1.3)**	**6.5**	88.6	(1.4)	87.2
Total equity	**320.3**	**(1.3)**	**319.0**	402.4	(1.4)	401.0
Total equity and liabilities	**961.5**	**34.0**	**995.5**	430.1	19.9	450.0

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

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	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS16 £m	**IFRS 16 £m**	**As reported £m**	Amounts without adoption of IFRS16 £m	IFRS 16 £m	As reported £m
Net cash outflow from operating activities	**(34.1)**	**7.1**	**(27.0)**	(34.4)	3.8	(30.6)
Financing activities						
Payment of lease liabilities	**–**	**(7.1)**	**(7.1)**	–	(3.8)	(3.8)
Net cash inflow from financing activities	**619.5**	**(7.1)**	**612.4**	**291.5**	**(3.8)**	**287.7**

Impact of the change in accounting policies on segmental

	Year ended 31 December 2019			Year ended 31 December 2018		
	Amounts without adoption of IFRS16 £m	**IFRS 16 £m**	**As reported £m**	Amounts without adoption of IFRS16 £m	IFRS 16 £m	As reported £m
United Kingdom	**31.2**	**2.8**	**34.0**	21.8	2.8	24.6
United States	**(13.1)**	**2.8**	**(10.3)**	(7.4)	1.7	(5.7)
Developing Markets	**(13.5)**	**1.0**	**(12.5)**	(7.4)	0.6	(6.8)
Segment adjusted EBITDA	**4.6**	**6.6**	**11.2**	7.0	5.1	12.1
Adjusted EBITDA	**(34.1)**	**6.6**	**(27.5)**	(28.5)	5.1	(23.4)
Depreciation and amortisation	**(9.4)**	**(5.5)**	**(14.9)**	(8.2)	(4.3)	(12.5)
Operating loss	**(85.8)**	**1.1**	**(84.7)**	(51.6)	0.8	(50.8)

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Summary of new and amended accounting policies

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

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

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

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

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

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

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

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

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

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

asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;

- uses an approach taking the risk-free interest rate adjusted for credit risk for leases held by Funding Circle Holdings plc; and

- makes adjustments specific to the lease for term, country and currency.

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

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

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

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

Considerations include:

-if leasehold improvements are expected to have significant value at the end of the lease term;

-expected costs or business disruption as a result of replacing a lease; and

-significant penalties incurred in order to terminate.

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

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

Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

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

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

Investment in associates

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

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investment in its associate is accounted for using the equity method.

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

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

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

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

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

Financial assets

The Group determines the classification of its financial assets at initial recognition. The requirements of IFRS 9 for classification and subsequent measurement are applied which require financial assets to be classified based on the Group's business model for managing the asset and the contractual cash flow characteristics of the asset:

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

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

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

With the exception of investments in SME loans under cure period, investment in SME loans (warehouse) and investments in SME loans (securitised), all financial assets are held to collect contractual cash flows.

Under certain circumstances the Group does hold investments in SME loans. The four types of investment in SME loans are as follows:

i) Investment in SME loans (curing)

In the US, investors commit to provide funding to Funding Circle Marketplace LLC (the originator of the borrower loans) in advance of the physical transfer of monies. Funding Circle, USA Inc. initially funds these committed loans to the borrowers and recovers the monies from the investors after the two to three-day cure period and therefore retains the credit risk during this short period.

Investments in SME loans (curing) have been classified as financial assets at fair value through profit or loss.

The above classification is mainly because all such loans are acquired principally for selling in the short term. They are initially recognised at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

ii) Investment in SME loans (warehouse)

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

iii) Investment in SME loans (securitised)

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

Retaining a significant proportion of the residual

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

Selling a significant portion of the residual

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

iv) Investment in SME loans (other)

The Group holds investments in certain SME business loans as a result of a commercial arrangement with institutional investors in the marketplace (see note 9).

These investments in other SME loans are classified as amortised cost (as they are held solely to collect principal and interest payments) and are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment.

Other financial assets

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

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

Impairment of financial assets

The Group applies the impairment requirements of IFRS 9. The IFRS 9 impairment model requires a three-stage approach:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ("ECLs") (that is, expected losses arising from the risk of default in the next 12 months) are recognised and interest income is calculated on the gross carrying amount of the asset (that is, without deduction for credit allowance).
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but are not credit impaired. For these assets, lifetime ECLs (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised, and interest income is still calculated on the gross carrying amount of the asset.
- Stage 3 consists of financial assets that are credit impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. For these assets, lifetime ECLs are also recognised, but interest revenue is calculated on the net carrying amount (that is, net of the ECL allowance).

The Group assesses on a forward-looking basis the expected credit losses associated with its financial assets carried at amortised cost and recognises a loss allowance for such losses at each reporting date. The measurement of ECLs reflects:

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

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

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the financial assets expire or the Group has either transferred the contractual right to receive the cash flows from that asset, or has assumed an obligation to pay those cash flows to one or more recipients.

The Group derecognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Financial liabilities

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

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

Bank borrowings

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

Derivative financial instruments

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

Bonds

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

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

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

See note 9 for details of the fair value methodology.

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

12. Critical accounting judgements and sources of estimation uncertainty

The preparation of the consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty.

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

There were no critical judgements in the year ended 31 December 2019. The significant estimates applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2018.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

i) Estimated impairment of assets

The Group tests annually whether goodwill has suffered any impairment. All other assets are tested for impairment where there are indicators of impairment. The recoverable amount of cash-generating units ("CGUs") has been determined based on value in use calculations. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the cash-generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates. During the year, impairment was identified in relation to the goodwill and tangible and intangible assets of the German and Dutch businesses within the Developing Markets segment. Based on the performance of the German and Dutch businesses and changes to the medium-term outlook for the non-financial assets included within the associated CGU it was determined that the carrying value exceeded the recoverable amount. Goodwill was fully impaired by £29.0 million, tangible fixed assets by £0.7 million and intangible assets by £4.6 million. There was not considered to be a recoverable amount in relation to these assets.

Funding Circle

ii) Loan repurchase provision

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

Significant estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information including macroeconomic forecasts such as changes in interest rates, GDP and inflation. The most significant estimation is with delinquencies and default rates on performing loans. For the year ended 31 December 2019 the weighted average lifetime default rate was 12.9%. If the weighted average default rate were to change by 25%, the provision would change by £1.5 million for the year ended 31 December 2019. It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-25% and as a result it is possible that the actual loan repurchases in future could materially diverge from management's estimate.

iii) Fair value of financial instruments

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

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

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

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