Funding Circle Holdings plc
Full Year 2020 Results
Embargoed until 7.00am, 25 March 2021

Funding Circle Holdings plc ("Funding Circle"), today announces results for the year ended 31 December 2020.

Samir Desai CBE, CEO and Founder, said:

"We are seeing an acceleration in the shift towards online in small business lending as a result of Covid and this has opened up an enlarged opportunity for Funding Circle.

We exceeded previous guidance and delivered £20 million of AEBITDA profit in the second half of 2020. This is a milestone for the business and we expect to continue to be AEBITDA profitable going forward.

Our machine learning and technology platform is transforming the small business borrowing experience with instant decisions for 50% of applications. Average loan applications are completed in 6 minutes and decisions follow in just 9 seconds, providing borrowers with an unmatched experience. In the next 12 months we will use this technology to launch new products to help solve more small business funding problems.

It has been a difficult year for many people and I'd like to thank all of our team who have worked exceptionally hard to help small businesses. Whilst we remain mindful of the uncertain economic environment, we are well positioned to help tens of thousands of small businesses in 2021."

Performance highlights

	H1 2020 £m	H2 2020 £m		2020 £m	2019 £m	% change year-on-year
Loans under Management (LuM)	3,722	4,214		4,214	3,731	13%
Originations	1,112	1,630		2,742	2,350	17%
Fee income ("Operating income")	64.8	90.9		155.7	156.9	(1)%
Net investment income[1]	36.4	29.9		66.3	20.4	225%
Total income	**101.2**	**120.8**		**222.0**	**177.3**	**25%**
Fair value (losses)/gains	(96.1)	(22.2)		(118.3)	(9.9)	1095%
Net income	**5.1**	**98.6**		**103.7**	**167.4**	**(38)%**
AEBITDA[2]	**(84.1)**	**20.3**		**(63.8)**	**(27.5)**	132%
Operating profit (loss)	**(113.5)**	**7.2**		**(106.3)**	**(84.7)**	**26%**
Profit (Loss) before taxation	**(115.1)**	**7.0**		**(108.1)**	**(84.2)**	**28%**

Financial summary

Full Year 2020

- Total Income £222.0 million (2019: £177.3 million) up 25% year-on-year.
- Record loans under management of £4.21 billion (2019: £3.73 billion) up 13% and record originations of £2.74 billion (2019: £2.35 billion) up 17% year-on-year.
- AEBITDA of negative £63.8 million (2019: negative £27.5 million); includes H1 2020 AEBITDA loss of £84.1 million, and H2 2020 AEBITDA profit of £20.3 million.
- UK business AEBITDA profit of £6.5 million.
- Operating expenses (before exceptional items) cut 12% to £191.3 million (2019: £217.8 million) following cost management initiatives.

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

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

- Operating loss of £106.3 million (2019: £84.7 million). This predominantly reflects the previously announced impact of Covid-19 on the loans we held for sale, a non-cash impairment of £12.0 million of US goodwill and £1.5 million related to the US restructure, and £5.2 million related to the restructure of the Developing Markets business.

H2 2020

- Total income reached £120.8 million, up 26% year-on year.
- Record loans under management of £4.21 billion up 13% and record originations of £1.63 billion, up 41% year-on-year.
- AEBITDA of £20.3 million (H2 2019: negative £7.8 million) as a result of strong trading, cost reduction actions and Fair Value in line with expectations.
- Operating profit of £7.2 million.
- UK business AEBITDA profit of £28.6 million and operating profit of £21.3 million.
- Net assets of £217.6 million, a small increase since June 2020 (£216.9 million).

Operating and Strategic Summary:

- **We continue to be one of the largest providers of SME loans:**
  - Following accreditation to the Coronavirus Business Interruption Loans Scheme (CBILS) in the UK and Paycheck Protection Program (PPP) in the US, we saw strong borrower and investor demand leading to record loans under management and record originations in 2020.
  - In the UK, Funding Circle was the 3rd largest[3] CBILS loans provider and represented c.27% share of the number of CBILS loans approved since we began participating in the scheme.
  - 100,000 small businesses have now accessed more than £11.5 billion of funding through the Funding Circle platform since 2010.
  - Net promoter scores between 80-90 for borrowers in the UK and US.

- **Our machine learning and technology platform is revolutionising SME lending:**
  - Funding Circle leverages machine learning risk models, built over the last 10 years, to provide instant decisions for small businesses.
  - Instant Decision Lending launched in Q4 2019 is transforming the SME borrowing experience.
  - At the end of 2020, 50% of loan decisions were automated, up from 40% in Q2 2020. Our long term target is c.80% of loan decisions automated.
  - In the UK, our 8th generation risk models are three times better at predicting risk than traditional credit bureau scores and Instant Decision technology uses the same risk models as non-instant decision loans with no adverse change in the credit performance.
  - As a result of the improved borrower experience, this technology increases conversion by up to 25% and has lower processing costs and greater scalability. H2 2020 UK originations were up 91% year-on year, without adding additional headcount.

- **This technology provides us with opportunities to launch new solutions to help SMEs:**
  - Over the next 12 months we will leverage our technology to beta launch new funding solutions to help small business owners solve more problems:
    - A new Application Programming Interface (API) embedding Funding Circle natively into partners' websites and platforms to extend distribution.
    - A new payment finance product enabling small business owners to pay invoices and spread the costs over 3 months.
    - A new card for Funding Circle borrowers to enable them to better manage their business spending habits.

- **We have shown effective management of the loanbook during an extreme period of stress:**
  - At the start of national lockdowns, we implemented a range of tools to support businesses, including increasing our support capacity to our Collections and Recoveries team and providing flexibility by offering payment plans to borrowers.

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[3] Funding Circle CBILS approvals as at 12 Feb 2021

- Following an initial spike in April and May 2020, the flow of borrowers missing payments for the first time has fallen to below pre-Covid-19 levels, and remained low and stable despite further recent lockdowns.
- 93% of UK and US businesses are now making full payments on their loans.

- **Loan performance demonstrates quality and resilience of portfolio:**
  - All UK and US cohorts expected to deliver positive annualised returns with small improvement from June 2020.

- **Covid has changed the SME lending landscape – and we are well placed to capture this enlarged opportunity:**
  - Since the start of the pandemic, Governments have stepped in to support SMEs, demonstrating their strategic importance to the economic recovery and future growth. SMEs have been able to access more than $700bn through PPP in the US, whilst in the UK SMEs have accessed £70bn borrowed through CBILS and the Bounce Back Loan Scheme (BBLS).
  - Covid has led to a rapid acceleration in the shift towards online in small business lending. There has been a 5x increase in search terms for online business loans since the start of Covid.
  - There has been strong demand from investors despite the economic downturn. More than £2.5 billion of investor capital has been raised since the beginning of Covid to lend to UK and US SMEs on the Funding Circle platform.
  - Whilst government support has been significant over the past 12 months, many SMEs expect to continue to have ongoing financing needs. 40% have said they expect to require finance in the next 12 months, primarily for growth or investment.

- **Clear priorities for 2021:**
  - **UK:** We will operate our core loan product alongside the new Government programme, the Recovery Loan Scheme (RLS), which will replace CBILS, as well as launching new products using our technology platform.
  - **US:** Once PPP ends, we will expand our core loan product, as well as originating government guarantee loans through the Small Business Administration (SBA) programme on behalf of banks and continuing to operate our referral model for other borrower needs.

Launch of Funding Circle's Economic Impact Report:

- Alongside today's results, Funding Circle, in partnership with Oxford Economics, today publishes its 2020 Economic Impact Report. Key findings from the report include:
  - Globally, in 2020, lending through Funding Circle helped generate £10bn in GDP while creating and sustaining 135,000 jobs.
  - SMEs used CBILS loans to invest in and adapt their business to the pandemic's challenges.
  - Across 2020 as a whole, searches for online business loans were 5.3 times higher than 2019, accelerating an existing trend.
  - Almost six out of ten SMEs who took a Funding Circle loan were first-time users of the platform; 86% of these say they will come back to the platform first in future.
  - The majority—73%—of Funding Circle's customers expect to require further finance and 40% have said they expect to require finance in the next 12 months, primarily for growth or investment. The proportion of SMEs happy to use finance to meet their growth aspirations is at its highest level since 2018.
  - The full report can be found here: https://www.fundingcircle.com/uk/impact

Outlook:

Covid-19 has changed the SME lending landscape. Over the past 12 months we have seen an acceleration in the adoption of online borrowing. Through the use of our machine learning and technology platform, which is transforming the small business borrowing experience, we are well-placed to capture this enlarged opportunity going forward.

Full year outlook:

- LuM and originations over the full year will depend on how quickly the economy recovers in the UK and US.
- Trading has been strong since the start of 2021. As we transition to operating our core loan product alongside government guarantee programmes in the UK and US from Q2 2021 onwards, we expect some initial reduction in lending.
- We expect to be AEBITDA profitable for the full year, with profitability skewed towards H1 2021.

Board changes:

Cath Keers, Bob Steel and Ed Wray will not be standing for re-election as Directors at the Company's AGM on 19 May 2021. Matthew King, who currently chairs the Funding Circle Ltd Board (UK trading subsidiary), will join the Board as a Non-Executive Director on 19 May and Helen Beck will join as a Non-Executive Director and Chair of the Remuneration Committee on 1 June 2021. Geeta Gopalan will take on the role of Senior Independent Director from 19 May 2021. Matthew King is Chair of Savannah Resources plc. There is no further information to be disclosed regarding either Matthew or Helen under paragraph 9.6.13(R) of the Listing Rules.

Analyst presentation:

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

An on-demand replay will also be available on the Funding Circle website (corporate.fundingcircle.com) following the presentation.

Investor relations and media relations:

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About Funding Circle:

Funding Circle (LSE: FCH) is a small and medium enterprise ("SME") loans platform. Since launching in 2010, investors and lenders across Funding Circle's geographies - including banks, asset management companies, insurance companies, government-backed entities, retail investors and funds - have lent more than £11.5 billion to 100,000 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.

Business Review

At Funding Circle we deliver an excellent customer experience for small businesses powered by our machine learning and technology.

A great customer experience is built on exceptional fundamentals and seamless technology. Since our launch, we have built a technology platform that is revolutionising SME lending. A decade of research and development has created an inflection point for Funding Circle. 8th Generation machine learning risk models using Open Banking data and 10 years of proprietary data underpin our Instant Decision Lending platform. This enables SME owners to receive a decision in minutes, from the start of an application to receipt of approval.

Today, as the leading global platform for small business loans we have helped more than 100,000 small businesses to access more than £11.5 billion. Our investment in technology has resulted in strong customer satisfaction scores and high repeat rates, helping us to grow alongside our small businesses.

We believe that as we get bigger and help more small businesses access the finance they need to grow, we will create a stronger platform that drives significant competitive advantage. This creates a virtuous circle that will enable us to continue to help thousands of small businesses around the world and drive market share.

2020 overview

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

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

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

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

2021 priorities

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

Our priorities to achieve this are clear.

Lending on our core loans product and the new Recovery Loan Scheme in the UK, and SBA loans on behalf of banks in the US, as well as continuing to operate our referral model for other borrower needs, will commence during Q2.

Alongside this, we will look to take advantage of the opportunities that our technology provides us with to do more to help SMEs. Over the next 12 months we will leverage our technology to launch new funding solutions in the UK to help small business owners solve more problems. This includes an API to help embed Funding Circle into partners' websites and platforms; a payment finance product to help them manage their cash flow challenges: and a new card for Funding Circle borrowers to enable them to better manage their business spending habits.

Geographic highlights

United Kingdom

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

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

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

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

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

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

United States

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

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

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

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

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

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

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

Developing Markets

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

Finance review

Overview

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

AEBITDA loss was £63.8 million (2019: loss £27.5 million). H1 AEBITDA loss was £84.1 million, which comprised of negative £24.4 million operating AEBITDA[4] and negative £59.7 million investment AEBITDA[4], driven by a large fair value adjustment on SME loans held for sale. This compared to a strong AEBITDA profit in H2 2020 of £20.3 million, which comprised of £12.6 million operating AEBITDA and £7.7 million investment AEBITDA.

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

Profit and loss

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

Total income

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

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

- *Transaction fees*, representing fees earned on originations, grew 1% to £122.5 million. This was driven by higher originations in the UK, offset by lower yields on CBILS loans which are fixed at 4.75%, together with the lower originations in the US, where the majority were generated through the marketplace (referral) model driving average yields in the US to 3.7% for the year (2019: 5.4%).
- *Servicing fees*, representing income for servicing loans under management, remained flat at £30.2 million. With a large proportion of the UK originations occurring in the second half of 2020, the impact on the UK's servicing fees will be more pronounced in 2021. Servicing yield was 0.8% compared with 0.9% in 2019 as servicing fees are not earned when Funding Circle is servicing its own loans in warehouses and securitisation vehicles that are on balance sheet.

[4] Investment AEBITDA is defined as investment income, investment expense and fair value adjustments, and operating AEBITDA represents AEBITDA excluding investment AEBITDA.

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

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

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

Operating expenses

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

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

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

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

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

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

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

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

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

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

Segmental reporting

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

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

Net income/(loss)	31 December 2020				31 December 2019 (Restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	**152.9**	**63.0**	**6.1**	**222.0**	**111.6**	**52.4**	**13.3**	**177.3**
Fair value (losses)/gains	**(43.8)**	**(74.5)**	**-**	**(118.3)**	(3.1)	(6.8)	-	(9.9)
Net income/(loss)	**109.1**	**(11.5)**	**6.1**	**103.7**	**108.5**	**45.6**	**13.3**	**167.4**

Segment profit	31 December 2020				31 December 2019 (Restated)			
	United Kingdom £m	United States £m	Developing Markets £m	Total £m	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Segment adjusted EBITDA	**30.2**	**(52.8)**	**(6.3)**	**(28.9)**	**34.0**	**(10.3)**	**(12.5)**	**11.2**
Product development	**(14.7)**	**(6.5)**	**(1.1)**	**(22.3)**	(15.1)	(8.3)	(3.0)	(26.4)
Corporate costs	**(9.0)**	**(3.1)**	**(0.5)**	**(12.6)**	(7.9)	(3.4)	(1.0)	(12.3)
Adjusted EBITDA	**6.5**	**(62.4)**	**(7.9)**	**(63.8)**	**11.0**	**(22.0)**	**(16.5)**	**(27.5)**
Depreciation and amortisation	**(9.4)**	**(6.5)**	**(1.3)**	**(17.2)**	(8.0)	(5.2)	(1.7)	(14.9)
Share-based payments and social security costs	**(5.0)**	**(1.2)**	**(0.4)**	**(6.6)**	(5.0)	(2.7)	(0.3)	(8.0)
Exceptional items	**-**	**(13.5)**	**(5.2)**	**(18.7)**	-	-	(34.3)	(34.3)
Operating loss	**(7.9)**	**(83.6)**	**(14.8)**	**(106.3)**	**(2.0)**	**(29.9)**	**(52.8)**	**(84.7)**

Balance sheet and investments

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

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

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

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

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

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

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

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

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

1) Securitisation SPVs (vertical): Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued (vertical). The vertical investments are held at amortised cost.

2) Other Investments: There are a small amount of Other Investments, comprising seed investments in Private Funds and participation in investments in the UK CBILS programme. The increase since 2019 is principally driven by CBILS investments.

3) Warehouse SPVs: In warehouses we deploy our equity and third party bank debt to aggregate loans temporarily prior to securitisation. The debt is senior which means the equity is more exposed to changes in the valuation of loans. When Covid-19 hit, the Group had one UK warehouse at 100% of capacity and two US warehouses at a combined 30% capacity. The intention was to securitise the SME loans in the warehouses but this was not feasible due to Covid-19.

4) Securitisation SPVs (horizontal): Once loans are securitised, we temporarily hold the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn greatest returns, but they also absorb losses first. As at December 2020, we held horizontals in three securitisations which were securitised in H2 2019 (UK and US) and H1 2020 (US). The timing of the pandemic meant that it was not feasible to dispose of all these horizontal tranches in 2020. Since June 2020, the Group sold a tranche of the UK vehicle for c.£4 million.

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

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

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

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

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

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

Statement of Directors' Responsibilities

The Funding Circle Report and Accounts for year end 31 December 2020 contains a responsibility statement in the following form:

Each of the Directors, whose names and functions are listed in the Report of the Directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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 information and to establish that the Company's auditors are aware of that information.

By order of the Board

Samir Desai, Chief Executive Officer

Oliver White, Chief Financial Officer

25 March 2021

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Note	**31 December 2020 Before exceptional items £m**	**Exceptional items[1] £m**	**31 December 2020 £m**	31 December 2019 Before exceptional items £m	Exceptional items[1] £m	31 December 2019 £m
Transaction fees		**122.5**	**-**	**122.5**	121.2	-	121.2
Servicing fees		**30.2**	**-**	**30.2**	30.4	-	30.4
Other fees		**3.0**	**-**	**3.0**	5.3	-	5.3
Fee income		**155.7**	-	**155.7**	156.9	-	156.9
Investment income		**89.0**	**-**	**89.0**	28.3	-	28.3
Investment expense		**(22.7)**	**-**	**(22.7)**	(7.9)	-	(7.9)
Total income		**222.0**	-	**222.0**	177.3	-	177.3
Fair value (losses)/gains		**(118.3)**	**-**	**(118.3)**	(9.9)	-	(9.9)
Net income	2	**103.7**	**-**	**103.7**	167.4	-	167.4
People costs	3,5	**(81.3)**	**(4.0)**	**(85.3)**	(90.3)	-	(90.3)
Marketing costs	3	**(46.8)**	**-**	**(46.8)**	(66.5)	-	(66.5)
Depreciation, amortisation and impairment	3	**(17.2)**	**(13.7)**	**(30.9)**	(14.9)	(34.3)	(49.2)
Loan repurchase charge	3	**(6.2)**	**-**	**(6.2)**	(6.5)	-	(6.5)
Other costs	3	**(39.8)**	**(1.0)**	**(40.8)**	(39.6)	-	(39.6)
Operating expenses	3	**(191.3)**	**(18.7)**	**(210.0)**	(217.8)	(34.3)	(252.1)
Operating loss		**(87.6)**	**(18.7)**	**(106.3)**	(50.4)	(34.3)	(84.7)
Finance income		**0.4**	**-**	**0.4**	1.8	-	1.8
Finance costs		**(1.4)**	**-**	**(1.4)**	(1.2)	-	(1.2)
Share of net loss of associates		**(0.8)**	**-**	**(0.8)**	(0.1)	-	(0.1)
Loss before taxation		**(89.4)**	**(18.7)**	**(108.1)**	(49.9)	(34.3)	(84.2)
Income tax		**(0.2)**	**-**	**(0.2)**	(0.5)	-	(0.5)
Loss for the year		**(89.6)**	**(18.7)**	**(108.3)**	(50.4)	(34.3)	(84.7)
Other comprehensive income/(loss)							
Items that may be reclassified subsequently to profit and loss:							
Exchange differences on translation of foreign operations		**1.7**	**-**	**1.7**	(7.7)	-	(7.7)
Total comprehensive loss for the year		**(87.9)**	**(18.7)**	**(106.6)**	(58.1)	(34.3)	(92.4)
Total comprehensive loss attributable to:							
Owners of the Parent		**(87.9)**	**(18.7)**	**(106.6)**	(58.1)	(34.3)	(92.4)
Loss per share							
Basic and diluted loss per share	6	**(25.8)p**	**(5.4)p**	**(31.2)p**	(14.5)p	(9.9)p	(24.4)p

[1]Exceptional items are detailed within note 4. During the year ended 31 December 2020 the presentation of exceptional items on the face of the consolidated statement of comprehensive income was amended to illustrate them in columnar fashion to aid users of the accounts understanding of the impact of such items. The comparative year ended 31 December 2019 was re-presented accordingly for comparability.

All amounts relate to continuing activities.

Consolidated balance sheet
as at 31 December 2020

	Note	**31 December 2020 £m**	31 December 2019 £m
Non-current assets			
Goodwill	7	**-**	11.3
Intangible assets	8	**24.4**	23.6
Property, plant and equipment	9	**28.7**	39.0
Investment in associates		**11.0**	13.2
Investment in trusts	13	**21.2**	-
Investment in SME loans (other)	13	**0.7**	1.7
		86.0	88.8
Current assets			
Investment in SME loans (warehouse)	13	**221.8**	342.0
Investment in SME loans (securitised)	13	**279.8**	366.6
Investment in SME loans (other)	13	**24.3**	—
Trade and other receivables	10	**67.0**	33.6
Cash and cash equivalents	14	**103.3**	164.5
		696.2	906.7
Total assets		**782.2**	995.5
Current liabilities			
Trade and other payables	11	**34.1**	19.7
Bank borrowings	13	**195.5**	265.8
Bonds	13	**294.3**	348.7
Short-term provisions and other liabilities	12	**8.7**	3.1
Lease liabilities	9	**7.3**	8.5
		539.9	645.8
Non-current liabilities			
Long-term provisions and other liabilities	12	**1.2**	0.9
Lease liabilities	9	**23.5**	29.8
Total liabilities		**564.6**	676.5
Equity			
Share capital		**0.3**	0.3
Share premium account		**292.6**	292.3
Foreign exchange reserve		**9.7**	8.0
Share options reserve		**13.6**	11.9
(Accumulated losses)/ retained earnings		**(98.6)**	6.5
Total equity		**217.6**	319.0
Total equity and liabilities		**782.2**	995.5

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Note	Share Capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Retained earnings / (accumulated losses) £m	Total Equity £m
Balance at 1 January 2019		0.3	291.8	15.7	6.0	87.2	401.0
Loss for the year		–	–	–	–	(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
Loss for the year		-	-	-	-	(108.3)	(108.3)
Other comprehensive income							
Exchange differences on translation of foreign operations		-	-	1.7	-	-	1.7
Transactions with owners							
Transfer of share option costs		-	-	-	(3.2)	3.2	-
Issue of share capital		-	0.3	-	-	-	0.3
Employee share schemes – value of employee services		-	-	-	4.9	-	4.9
Balance at 31 December 2020		**0.3**	**292.6**	**9.7**	**13.6**	**(98.6)**	**217.6**

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	**31 December 2020 £m**	31 December 2019 £m
Net cash inflow/(outflow) from operating activities	14	**33.1**	(27.0)
Investing activities			
Purchase of intangible assets	8	**(9.5)**	(14.5)
Purchase of property, plant and equipment	9	**(0.8)**	(2.7)
Cash receipts from SME loans (curing)		**-**	4.7
Purchase of SME loans (other)	13	**(25.0)**	(1.5)
Purchase of SME loans (warehouse phase)	13	**(286.9)**	(381.2)
Purchase of SME loans (securitised)	13	**-**	(414.5)
Cash receipts from SME loans (warehouse phase)	13	**146.9**	32.5
Cash receipts from SME loans (securitised)	13	**211.7**	37.4
Proceeds from sale of investment bonds	13	**4.0**	-
Investment in trusts	13	**(20.9)**	-
Redemption / (investment) in associates		**1.9**	(13.9)
Dividends from associates		**0.4**	0.1
Interest received		**0.4**	1.8
Net cash inflow/(outflow) from investing activities		**22.2**	(751.8)
Financing activities			
Proceeds from bank borrowings	13	**230.1**	462.1
Repayment of bank borrowings	13	**(299.1)**	(192.7)
Proceeds from issuance of bonds	13	**186.5**	379.5
Payment of bond liabilities	13	**(226.1)**	(30.1)
Proceeds from the exercise of share options		**0.2**	0.7
Payment of lease liabilities		**(7.8)**	(7.1)
Net cash (outflow)/inflow from financing activities		**(116.2)**	612.4
Net decrease in cash and cash equivalents		**(60.9)**	(166.4)
Cash and cash equivalents at the beginning of the year		**164.5**	333.0
Effect of foreign exchange rate changes		**(0.3)**	(2.1)
Cash and cash equivalents at the end of the year	14	**103.3**	164.5

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

Notes

for the year ended 31 December 2020

1. Basis of preparation

General information

The results for the year ended 31 December 2020 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) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and International Accounting Standards in conformity with the requirements of the Companies Act 2006. 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 2020, 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 15, 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 2019, 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 reported 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.

Going concern

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

The Group made a total comprehensive loss of £106.6 million during the year ended 31 December 2020 (2019: loss of £92.4 million).

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

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

The base case scenario assumes:

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

Management prepared a severe but plausible downside scenario in which:

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

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

The Group does not currently rely on committed or uncommitted borrowing facilities with the exception of borrowings, which are held in bankruptcy remote SPVs, to fund warehouse SME loan purchases, and does not have undrawn committed borrowing facilities available to the wider Group. Management has reviewed financial covenants that the Group must adhere to in relation to its servicing agreements. These are with institutional investors and debt facilities associated with borrowings used to fund SME loan originations in warehouses, for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios. In the downside scenario, the risk of covenant breach is considered remote.

The Directors have made enquiries of management and considered budgets and cash flow forecasts for the Group and have, at the time of approving these financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

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 previously supported by two centralised cost segments. Reporting on this basis is reviewed by the Global Leadership Team ("GLT"), which is the chief operating decision maker ("CODM"). The GLT function is made up of the Executive Directors and other senior management and is responsible for the strategic decision making of the Group.

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

The GLT measures the performance of each segment by reference to a non-GAAP measure, Adjusted EBITDA, which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items (see note 5). Together with operating profit/loss, Adjusted EBITDA is a key measure of Group performance as it allows better interpretation of the underlying performance of the business.

During the year ended 31 December 2020 organisational changes led to greater ownership of costs being managed within geographies. As a result the way the operating segment performance is reported to and reviewed by the GLT was modified to allocate product development, corporate costs, depreciation and amortisation, share-based payment charges and exceptional items across the three geographical segments. The comparatives for the year ended 31 December 2019 have been restated to reflect the revised segmental presentation.

Net income/(loss)	**31 December 2020**				31 December 2019 (restated)			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	**152.9**	**63.0**	**6.1**	**222.0**	111.6	52.4	13.3	177.3
Fair value (losses)/gains	**(43.8)**	**(74.5)**	**-**	**(118.3)**	(3.1)	(6.8)	-	(9.9)
Net income/(loss)	**109.1**	**(11.5)**	**6.1**	**103.7**	108.5	45.6	13.3	167.4

Segment profit	**31 December 2020**				31 December 2019 (restated)			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Segment adjusted EBITDA	**30.2**	**(52.8)**	**(6.3)**	**(28.9)**	34.0	(10.3)	(12.5)	11.2
Product development	**(14.7)**	**(6.5)**	**(1.1)**	**(22.3)**	(15.1)	(8.3)	(3.0)	(26.4)
Corporate costs	**(9.0)**	**(3.1)**	**(0.5)**	**(12.6)**	(7.9)	(3.4)	(1.0)	(12.3)
Adjusted EBITDA	**6.5**	**(62.4)**	**(7.9)**	**(63.8)**	11.0	(22.0)	(16.5)	(27.5)
Depreciation and amortisation	**(9.4)**	**(6.5)**	**(1.3)**	**(17.2)**	(8.0)	(5.2)	(1.7)	(14.9)
Share-based payments and social security costs	**(5.0)**	**(1.2)**	**(0.4)**	**(6.6)**	(5.0)	(2.7)	(0.3)	(8.0)
Exceptional items (note 4)	**-**	**(13.5)**	**(5.2)**	**(18.7)**	-	-	(34.3)	(34.3)
Operating loss	**(7.9)**	**(83.6)**	**(14.8)**	**(106.3)**	(2.0)	(29.9)	(52.8)	(84.7)

Net income by type

In addition to the segmental reporting of performance under IFRS 8, the table below sets out net income by its type:

	31 December 2020 £m	31 December 2019 £m
Transaction fees	**122.5**	121.2
Servicing fees	**30.2**	30.4
Other fees	**3.0**	5.3
Fee income	**155.7**	156.9
Investment income	**89.0**	28.3
Investment expense	**(22.7)**	(7.9)
Total income	**222.0**	177.3
Fair value (losses)/gains	**(118.3)**	(9.9)
Net income	**103.7**	167.4

3. Operating expenses

	31 December 2020			31 December 2019		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Depreciation	**9.0**	**-**	**9.0**	7.8	-	7.8
Amortisation	**8.2**	**-**	**8.2**	7.1	-	7.1
Rental income and other recharges	**(1.1)**	**-**	**(1.1)**	-	-	-
Operating lease rentals:						
– Other assets	**-**	**-**	**-**	0.1	-	0.1
– Land and buildings	**0.1**	**-**	**0.1**	0.1	-	0.1
Employment costs (including contractors)	**81.3**	**4.0**	**85.3**	90.3	-	90.3
Marketing costs (excluding employment costs)	**46.8**	**-**	**46.8**	66.5	-	66.5
Data and technology	**10.9**	**-**	**10.9**	9.4	-	9.4
Loan repurchase charge	**6.2**	**-**	**6.2**	6.5	-	6.5
Impairment of goodwill	**-**	**12.0**	**12.0**	-	29.0	29.0
Impairment of intangible and tangible assets	**-**	**1.7**	**1.7**	-	5.3	5.3
Other expenses	**29.9**	**1.0**	**30.9**	30.0	-	30.0
Total operating expenses	**191.3**	**18.7**	**210.0**	217.8	34.3	252.1

4. Exceptional items

	31 December 2020 £m	31 December 2019 £m
Restructuring costs	**6.0**	-
Share-based payment credit relating to restructuring	**(1.0)**	-
Impairment of goodwill	**12.0**	29.0
Impairment of intangible and tangible assets	**1.7**	5.3
Total	**18.7**	34.3

Exceptional items are the items of income or expense that the Group considers are material, one-off in nature and of such significance that they merit separate presentation in order to aid the reader's understanding of the Group's financial performance.

As announced in March 2020, the Group restructured the German and Dutch (Developing Markets) businesses to focus on referring loans it originates to local lenders. This restructuring has resulted in one-off costs totalling £4.6 million comprising redundancy costs £4.0 million, a related share-based payment credit of (£0.4) million and other costs of £1.0 million. An additional impairment on right-of-use assets was incurred of £0.6 million. Cash payments associated with these items totalled £3.8 million to 31 December 2020.

As announced in July 2020, the Group reorganised the US business, centralising the US technology team in the UK, and moving sales and marketing to Denver, resulting in a net reduction of c.85 roles. This restructuring has resulted in one-off costs totalling £0.4 million, comprising redundancy costs of £1.0 million and associated share-based payment credits of (£0.6) million. An additional impairment on right-of-use assets was recognised of £1.1 million. Cash payments associated with these items totalled £1.1 million to 31 December 2020.

Following a change in the Group's income and cost forecasts, the Group has taken a non-cash goodwill impairment of £12.0 million in relation to the US business.

In 2019, as part of the annual goodwill impairment assessment the Group took a non-cash goodwill impairment of £29.0 million. Additionally the Group assessed the tangible and intangible fixed assets of the German and Dutch businesses and took a non-cash impairment of £0.7 million and £4.6 million respectively.

5. Employees

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

	2020 Number	2019 Number
UK	**601**	599
US	**240**	292
Developing Markets	**70**	164
	911	1,055

In addition to the employees above, the average monthly number of contractors during the year was 91 (2019: 110).

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

	31 December 2020 Before exceptional items £m	Exceptional items £m	31 December 2020 Total £m	31 December 2019 Total £m
Wages and salaries	**70.8**	4.0	74.8	80.1
Social security costs	**6.9**	1.0	7.9	7.8
Pension costs	**1.2**	-	1.2	1.0
Share-based payments	**6.6**	(1.0)	5.6	8.0
	85.5	4.0	89.5	96.9
Contractor costs	**5.2**	-	5.2	7.7
Less: capitalised development costs	**(9.4)**	-	(9.4)	(14.3)
Employment costs net of capitalised development costs	**81.3**	4.0	85.3	90.3

6. Loss per share

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

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

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

	31 December 2020 £m	31 December 2019 £m
Loss for the year	**(108.3)**	(84.7)
Weighted average number of ordinary shares in issue (million)	**347.0**	347.6
Basic and diluted loss per share	**(31.2)p**	(24.4)p
Loss for the year before exceptional items	**(89.6)**	(50.4)
Weighted average number of ordinary shares in issue (million)	**347.0**	347.6
Basic and diluted loss per share before exceptional items	**(25.8)p**	(14.5)p

7. Goodwill

	Total £m
Cost and carrying amount	
At 1 January 2019	42.3
Exchange differences	(2.0)
Impairment charge (note 4)	(29.0)
At 31 December 2019	11.3
At 1 January 2020	11.3
Exchange differences	0.7
Impairment charge (note 4)	(12.0)
At 31 December 2020	-

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. Following the impact of Covid-19 and a change in the Group's income and cost forecasts, the Group undertook an interim goodwill impairment review for all CGUs at 30 June 2020.

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. At the previous balance sheet date, the Group had one CGU to which goodwill was attached, being Funding Circle USA ("FCUSA") and its subsidiaries.

	31 December 2020 £m	31 December 2019 £m
FCUSA	-	11.3
FCCE	-	-
Total	-	11.3

The impairment test involved comparing the carrying value of the non-financial assets held for use to their recoverable amount. The recoverable amount represents the higher of the CGU's fair value less costs to sell and its value in use. The recoverable amount was determined using fair value less cost to sell calculations utilising discounted cash flows.

Further details of the impairment assessment are detailed within note 16. The review identified impairment to the goodwill in FCUSA as the fair value less cost to sell calculated was below the carrying amount. The cumulative amount of impairment losses in relation to goodwill recognised in the year was £12.0 million (31 December 2019: £29.0 million in FCCE).

8. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Cost				
At 1 January 2019	34.2	0.8	1.3	36.3
Exchange differences	(0.5)	-	(0.2)	(0.7)
Additions	14.3	0.2	-	14.5
Reclassification	-	-	-	-
Disposals	(0.7)	-	-	(0.7)
At 31 December 2019	47.3	1.0	1.1	49.4
At 1 January 2020	47.3	1.0	1.1	49.4
Exchange differences	(0.5)	-	-	(0.5)
Additions	9.4	0.1	-	9.5
Disposals	(10.7)	(0.3)	-	(11.0)
At 31 December 2020	**45.5**	**0.8**	**1.1**	**47.4**
Accumulated amortisation				
At 1 January 2019	13.4	0.3	1.1	14.8
Exchange differences	(0.1)	-	(0.1)	(0.2)
Reclassification	(0.3)	0.3	-	-
Charge for the year	6.9	0.2	-	7.1
Impairment	4.6	-	-	4.6
Disposals	(0.5)	-	-	(0.5)
At 31 December 2019	24.0	0.8	1.0	25.8
At 1 January 2020	24.0	0.8	1.0	25.8
Charge for the year	8.0	0.2	-	8.2
Disposals	(10.7)	(0.3)	-	(11.0)
At 31 December 2020	**21.3**	**0.7**	**1.0**	**23.0**
Carrying amount				
At 31 December 2020	**24.2**	**0.1**	**0.1**	**24.4**
At 31 December 2019	23.3	0.2	0.1	23.6

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

The Group has right-of-use assets which comprise property leases held by the Group. Information about leases for which the Group is a lessee is presented below.

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

	31 December 2020 £m	31 December 2019 £m
Property, plant and equipment (owned)	**3.9**	5.1
Right-of-use assets	**24.8**	33.9
	28.7	39.0

Reconciliation of amount recognised in the balance sheet

	Leasehold improvements £m	Computer equipment £m	Furniture and fixtures £m	Right-of-use assets (property) £m	Total £m
Cost					
At 1 January 2019	5.3	4.0	2.2	33.8	45.3
Reclassification	(0.2)	-	-	0.2	-
Disposals	(0.5)	-	(0.4)	(5.3)	(6.2)
Additions	1.4	0.9	1.2	21.1	24.6
Exchange differences	(0.2)	(0.1)	-	(0.4)	(0.7)
At 31 December 2019	5.8	4.8	3.0	49.4	63.0
At 1 January 2020	5.8	4.8	3.0	49.4	63.0
Disposals	(0.1)	(1.6)	(0.2)	(2.2)	(4.1)
Additions	0.4	0.4	-	-	0.8
Exchange differences	-	-	-	(0.4)	(0.4)
At 31 December 2020	**6.1**	**3.6**	**2.8**	**46.8**	**59.3**
Accumulated depreciation					
At 1 January 2019	1.7	3.0	1.5	13.9	20.1
Disposals	(0.3)	-	(0.4)	(3.7)	(4.4)
Charge for the year	1.0	0.9	0.4	5.5	7.8
Impairment	0.6	0.1	-	-	0.7
Exchange differences	-	-	-	(0.2)	(0.2)
At 31 December 2019	3.0	4.0	1.5	15.5	24.0
At 1 January 2020	3.0	4.0	1.5	15.5	24.0
Disposals	(0.1)	(1.6)	(0.2)	(2.2)	(4.1)
Charge for the year	0.8	0.8	0.4	7.0	9.0
Impairment (exceptional)	-	-	-	1.7	1.7
Exchange differences	-	-	-	-	-
At 31 December 2020	**3.7**	**3.2**	**1.7**	**22.0**	**30.6**
Carrying amount					
At 31 December 2020	**2.4**	**0.4**	**1.1**	**24.8**	**28.7**
At 31 December 2019	2.8	0.8	1.5	33.9	39.0

During the year right-of-use assets were identified as part of the FCCE and FCUS restructures which were considered to be individual CGUs for which the recoverable amount was considered to be the future potential sub-let value. The estimated discounted cash flows from sub-let income were compared to the carrying value of the asset and an impairment of £1.7 million was recognised. See note 4 for related exceptional items.

Lease liabilities

Amounts recognised on the balance sheet were as follows:

	31 December 2020 £m	31 December 2019 £m
Current	**7.3**	8.5
Non-current	**23.5**	29.8
Total	**30.8**	38.3

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

	31 December 2020 £m	31 December 2019 £m
Depreciation charge of right-of-use assets (property)	**7.0**	5.5
Interest expense (included in finance costs)	**1.4**	1.2
Expense relating to short-term leases and leases of low-value assets	**0.1**	0.2

The total cash outflow for leases (excluding short-term and low-value leases) in 2020 was £7.8 million (2019: £7.1 million).

As at 31 December 2020 the potential future undiscounted cash outflows that have not been included in the lease liability due to lack of reasonable certainty the lease extension options might be exercised amounted to £nil (2019: £nil).

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10. Trade and other receivables

	31 December 2020 £m	31 December 2019 £m
Trade receivables	**1.6**	0.9
Other receivables[1]	**15.5**	17.3
Prepayments	**3.6**	4.2
Accrued income[2]	**43.7**	7.3
Rent and other deposits	**2.6**	3.9
	67.0	33.6

1. Includes £7.5 million (2019: £7.5 million) in relation to cash and liquidity reserves held in the UK securitisation vehicle which will unwind to make payments to bond holders in future.
2. Includes £36.2 million (2019: £nil) in relation to transaction fees receivable on CBILS originations. Accrued income outstanding at the start of the year was subsequently collected.

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

No trade receivables were overdue or impaired. Other receivables includes amounts related to bought back loans some of which are past due or impaired.

Included in rent and other deposits are £1.9 million of rental deposits (2019: £3.3 million) in respect of the Group's property leases which expire over the next five years.

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

11. Trade and other payables

	31 December 2020 £m	31 December 2019 £m
Trade payables	**2.1**	3.2
Other taxes and social security costs	**3.7**	3.1
Other creditors	**5.6**	1.7
Accruals	**22.7**	11.7
	34.1	19.7

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

12. Provisions and other liabilities

	Dilapidation £m	Loan repurchase £m	Restructuring[1] £m	Other £m	Total £m
At 1 January 2019	0.8	3.1	-	0.7	4.6
Reclassification	-	0.5	-	(0.5)	-
Additional provision/liability	0.1	6.5	-	0.7	7.3
Amount utilised	-	(7.2)	-	(0.7)	(7.9)
At 31 December 2019	0.9	2.9	-	0.2	4.0
Exchange differences	-	0.2	-	(0.1)	0.1
Additional provision/liability	-	6.2	6.0	3.2	15.4
Amount utilised	-	(4.1)	(4.9)	(0.6)	(9.6)
At 31 December 2020	**0.9**	**5.2**	**1.1**	**2.7**	**9.9**

[1]Restructuring provision is in relation to reorganisation of the USA, German and Dutch businesses, see note 4.

	31 December 2020 £m	31 December 2019 £m
Current	**8.7**	3.1
Non-current	**1.2**	0.9
	9.9	4.0

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

Loan repurchase liability

In certain historical circumstances, in new markets, predominantly in Germany and the Netherlands, Funding Circle has entered into arrangements with institutional investors to assume the credit risk on the loan investments made by the institutional investors. Under the terms of the agreements, the Group is required either to make payments when the underlying borrower fails to meet its obligation under the loan contract or buy the defaulted loan from the investors at its carrying value. In return for these commitments, the Group is entitled to the excess returns or additional income which is recorded as other income.

Under IFRS 9, the Group is required to provide for these loan repurchases under the expected credit loss ("ECL") model.

The liability related to each loan arranged is based on the ECLs associated with the probability of default of that loan in the next 12 months unless there has been a significant increase in credit risk of that loan since origination. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the loan investment exceed 30 days, in line with the rebuttable presumption per IFRS 9.

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the loan is considered to be credit-impaired. Under the loan repurchase contracts, this was the point at which there is an obligation for the Group to make a payment under the contract or buy back the loan. However while the buyback agreement is contractually defined as 90 days past-due, due to the impact of Covid-19, a consent letter was signed with the institutional investors in April 2020 to accommodate loans on forbearance plans whereby loans on such plans will be repurchased at 180 days past-due. However, the definition of default for the purposes of expected credit losses remains 90 days past-due and the buyback may lag the default definition applied.

If the loan is bought back by the Group, at the point of buy back, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the reserve is therefore based on lifetime ECLs.

The Group bands each loan investment using an internal risk rating and assesses credit losses on a collective basis.

	Performing: 12-month ECL £m	Underperforming: lifetime ECL £m	Non-performing: lifetime ECL £m	Total £m
At 1 January 2019	2.1	0.8	0.2	3.1
Liability against new loans originated	2.8	-	-	2.8
Liability against loans transferred from performing	(3.6)	(0.1)	7.4	3.7
Amounts utilised	-	-	(7.2)	(7.2)
Loans repaid	(0.5)	-	-	(0.5)
Change in probability of default	1.3	0.1	(0.4)	1.0
At 31 December 2019	2.1	0.8	-	2.9
Liability against new loans originated	-	-	-	-
Exchange differences	0.1	0.1	-	0.2
Liability against loans transferred from performing	(0.3)	0.5	4.9	5.1
Amounts utilised	-	-	(4.1)	(4.1)
Loans repaid	(0.8)	-	-	(0.8)
Change in probability of default	1.1	0.1	0.7	1.9
At 31 December 2020	**2.2**	**1.5**	**1.5**	**5.2**

At 31 December 2019	Expected credit loss coverage %	Basis for recognition of loan repurchase liability	Gross assets of external parties subject to loan repurchase liability £m	Loan repurchase liability £m
Performing (due in 30 days or less)	5	12-month ECL	40.6	2.1
Underperforming (31–90 days overdue)	81.3	Lifetime ECL	0.9	0.8
Non-performing (90+ days overdue)	100	Lifetime ECL	-	-
		Total	41.5	2.9

At 31 December 2020	**Expected credit loss coverage %**	**Basis for recognition of loan repurchase liability**	**Gross assets of external parties subject to loan repurchase liability £m**	**Loan repurchase liability £m**
Performing (due in 30 days or less)	**10.8**	**12-month ECL**	**20.3**	**2.2**
Underperforming (31–90 days overdue)	**71.5**	**Lifetime ECL**	**2.1**	**1.5**

Non-performing (90+ daysoverdue)	**79.0**	**Lifetime ECL**	**1.9**	**1.5**
		Total	**24.3**	**5.2**

The percentages applied above are based on the Group's past experience of delinquencies and loss trends, as well as forward-looking information in the form of macroeconomic scenarios governed by an impairment committee, which considers macroeconomic forecasts such as changes in interest rates, GDP and inflation.

Macroeconomic scenarios are probability weighted within the model and include stress scenarios of: i) low losses, a high GDP, market confidence and political stability; ii) normal losses based on baseline economic conditions; iii) high losses with manufacturing and political instability; iv) very high losses reflecting Covid-19 stress scenarios with the peak of defaults having occurred in H2 2020 and then de-stress gradually afterwards.

The stress scenario used was a geography-weighted scenario reflecting higher losses on the Netherlands book than that of the German portion of the loan book. This reflects the impact of the German government's stimulus programme, resulting in a blended stress of defaults having peaked in H2 2020 and de-stressing gradually afterwards.

The expected credit loss model includes actual defaults determined by monthly cohort, adjusted for forecasted lifetime cumulative default rates. It applies the latest default curve and lifetime default rates tailored to each cohort based on the expected lifetime default rate. When actual defaults trend higher than the curve, the forecast default curve is shifted upwards to align with actual performance. Estimated recoveries from defaults are discounted back to their present value using the effective interest rate. The items that the model is most sensitive to are default rates. Management has applied an estimated weighted average lifetime default rate across cohorts of 20.5% (31 December 2019: 12.9%). See note 16 for a sensitivity analysis on the impact of a change in default rates. At 31 December 2020, there is only one portfolio of loans.

The maximum exposure the Group might have to pay at the balance sheet date if 100% of eligible loans were required to be bought back would be £24.3 million (2019: £41.5 million). This would be dependent on the timing of any eligible loans defaulting. Repayments of eligible loans are no longer reinvested and therefore the final loan is due to expire in December 2024, along with the associated financial guarantees.

13. Financial risk management

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

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

Risk factors

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

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

Principal financial instruments

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

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

Categorisation of financial assets and financial liabilities

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2020:

Assets	Fair value through profit and loss £m	Amortised cost £m	Total £m
Investment in SME loans (other)	**-**	**25.0**	**25.0**
Investment in SME loans (warehouse)	**221.8**	**-**	**221.8**
Investment in SME loans (securitised)	**279.8**	**-**	**279.8**
Investment in trusts	**21.2**	**-**	**21.2**
Trade and other receivables	**0.3**	**19.4**	**19.7**
Cash and cash equivalents	**24.8**	**78.5**	**103.3**
	547.9	**122.9**	**670.8**

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Total £m
Trade and other payables	-	**(7.7)**	**(7.7)**
Loan repurchase liability	**-**	**(5.2)**	**(5.2)**
Bank borrowings	**-**	**(195.5)**	**(195.5)**
Bonds	**(7.8)**	**(286.5)**	**(294.3)**
Lease liabilities	**-**	**(30.8)**	**(30.8)**
	(7.8)	**(525.7)**	**(533.5)**

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

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)
Loan repurchase liability	-	(2.9)	(2.9)
Bank borrowings	-	(265.8)	(265.8)
Bonds	(20.0)	(328.7)	(348.7)
Lease liabilities	-	(38.3)	(38.3)
	(20.0)	(640.6)	(660.6)

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, investment in SME loans (other), bank borrowings, lease liabilities, certain bonds, loan repurchase liability 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.

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

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

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

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

	Fair value measurement using			
31 December 2020	**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	**-**	**0.1**	**0.2**	**0.3**
Investment in SME loans (warehouse)	**-**	**-**	**221.8**	**221.8**
Investment in SME loans (securitised)	**-**	**-**	**279.8**	**279.8**
Investment in trusts	**-**	**-**	**21.2**	**21.2**
Cash and cash equivalents	**24.8**	**-**	**-**	**24.8**
	24.8	**0.1**	**523.0**	**547.9**
Financial liabilities				
Bonds	**-**	**-**	**(7.8)**	**(7.8)**
	-	**-**	**(7.8)**	**(7.8)**

	Fair value measurement using			
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	-	-	(20.0)	(20.0)
	-	-	(20.0)	(20.0)

The fair value of investment in SME loans (warehouse) has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (warehouse) was £221.8 million at 31 December 2020 (2019: £342.0 million).

The fair value of investment in SME loans (securitised) represents loan assets in the securitisation vehicles and has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (securitised) was £279.8 million at 31 December 2020 (2019: £366.6 million).

Bonds represent the unrated tranches of bond liabilities measured at fair value through profit and loss (the rated tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £7.8 million at 31 December 2020 (2019: £20.0 million).

Investment in trusts represents the Group's investment in the trusts used to fund CBILS loans for which the government-owned British Business Bank will guarantee up to 80% of the balance in the event of default and is measured at fair value through profit and loss. The fair value has been estimated by discounting future cash flows in relation to the trusts using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in trusts was £21.2 million at 31 December 2020 (2019: £nil).

The most relevant significant unobservable input relates to the default rate estimate and discount rates applied to the fair value calculation, details of which are set out in note 16 for those with material estimation uncertainty.

Fair value movements on investment in SME loans (warehouse), investment in SME loans (securitised), investments in trusts and bonds (unrated) are recognised through the profit and loss account in fair value (losses)/gains.

A reconciliation of the movement in level 3 financial instruments is shown as follows:

	Investment in SME loans (warehouse) £m	Investment in SME loans (securitised) £m	Bonds (unrated) £m	Investment In trusts £m	Trade and other receivables £m
At 1 January 2019	-	-	-	-	-
Additions	673.4	-	(17.1)	-	-
Securitisations	(292.2)	414.5	-	-	-
Repayments	(32.5)	(37.4)	0.7	-	-
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	(0.5)	(5.8)	(3.6)	-	-
Foreign exchange loss	(6.2)	(4.7)	-	-	-
At 31 December 2019	342.0	366.6	(20.0)	-	-
Additions	286.9	-	-	20.9	-
Securitisations	(214.2)	214.2	-	-	-
Transfers	(0.2)	-	-	-	0.2
Repayments	(146.9)	(211.7)	4.2	-	-
Disposal	-	-	(4.0)	-	-
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	(43.4)	(87.2)	12.0	0.3	-
Foreign exchange loss	(2.4)	(2.1)	-	-	-
At 31 December 2020	**221.8**	**279.8**	**(7.8)**	**21.2**	**0.2**

14. Notes to the consolidated statement of cash flows

Cash inflow/(outflow) from operating activities

	31 December 2020 £m	31 December 2019 £m
Loss before taxation	**(108.1)**	(84.2)
Adjustments for		
Depreciation of property, plant and equipment	**9.0**	7.8
Amortisation of intangible assets	**8.2**	7.1
Impairment of goodwill (exceptional item)	**12.0**	29.0
Impairment of intangible and tangible assets (exceptional item)	**1.7**	5.3
Share based payment restructuring credit (exceptional item)	**(1.0)**	-
Interest receivable	**(0.4)**	(1.8)
Interest payable	**1.4**	1.2
Non-cash employee benefits expense – share-based payments and associated social security costs	**6.4**	7.7
Fair value losses	**118.3**	9.9
Movement in restructuring provision	**1.1**	-
Movement in loan repurchase liability	**2.3**	(0.2)
Movement in other provisions	**2.5**	(0.4)
Share of losses of associates	**0.8**	0.1
Other non-cash movements	**1.2**	(0.1)
Changes in working capital		
Movement in trade and other receivables	**(35.3)**	(9.1)
Movement in trade and other payables	**13.0**	0.7
Net cash inflow/(outflow) from operating activities	**33.1**	(27.0)

Cash and cash equivalents

	31 December 2020 £m	31 December 2019 £m

Cash and cash equivalents	**103.3**	164.5

The cash and cash equivalents balance is made up of cash, money market funds and bank deposits. The carrying amount of these assets is approximately equal to their fair value. Included within cash and cash equivalents above is cash of £1.0 million (2019: £1.2 million) which is restricted in use in the event of rental payment defaults and cash held in the securitisation and warehouse SPVs of £38.9 million (2019: £14.2 million) which has been collected for on payment to lenders and bond holders and is therefore restricted in its use. A further £4.3 million (2019: £nil) of cash is held which is restricted in use to repaying investors in CBILS loans and paying CBILS related costs to the UK government.

At 31 December 2020, money market funds totalled £24.8 million (2019: £46.0 million).

15. Significant changes in the current reporting year

The financial position and performance of the Group were affected by the following events and transactions during the year ended 31 December 2020:

i) Covid-19

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

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

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

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

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

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

iv) Asset-backed securities ("ABS")

The Group continued its bond programmes which commenced in the prior year in the UK and US, investing in SME loans during the "warehousing phase" of the programme using both its own cash and amounts borrowed under credit facilities with lending institutions. An additional credit facility was utilised and warehouse vehicle created in the US in the year to 31 December 2020. The loans are held within bankruptcy remote special purpose warehouse vehicles which are consolidated on the Group's balance sheet. Once the warehouse vehicle reaches sufficient scale, the SME loans are sold into another bankruptcy remote special purpose vehicle ("SPV") financed through the issuance of bonds to third party investors and the amounts borrowed under the credit facility are repaid. During the year to 31 December 2020 a further £214.2 million of SME loans have been sold to SPVs (31 December 2019: £292.2 million).

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

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

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

Changes in accounting policy and disclosures

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

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IAS 1 Presentation of Financial Statements, and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, definition of material	Definition of material	1 January 2020
Amendments to IFRS 3 Business Combinations, definition of a business	Business combinations	1 January 2020
Revised Conceptual Framework for Financial Reporting and Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	Associates and joint ventures	1 January 2020
Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest rate benchmark reform – Phase 1	Reliefs relating to interest rate benchmark reforms	1 January 2020

The amendments and interpretations listed above did not significantly affect the current year and are not expected to significantly affect future years.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting years, have not yet been endorsed pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and have not been early adopted by the Group as follows:

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

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

Summary of new and amended accounting policies

Investment in trusts

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

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

Investments in trusts are classified at fair value through profit and loss. They are initially recognised at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

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

16. Critical accounting judgements and key sources of estimation uncertainty

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

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

The significant judgements and estimates applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2019.

Critical judgements:

Consolidation and deconsolidation of special purpose vehicles ("SPVs")

As part of its asset-backed securitisation programmes, the Group has established warehouse and securitisation SPVs. Judgement is required in determining who is most exposed to the variability of returns and who has the ability to affect those returns and therefore who should consolidate these vehicles and subsequently deconsolidate them. Where the Group has a significant interest in the junior tranches of the securitisation vehicles or the subordinated debt in the warehouses, the Group is deemed to be exposed to the majority of the variability of the returns of those vehicles and controls them, and therefore consolidates them. Where this interest is reduced, the Group considers whether the vehicles should be deconsolidated. During the year a tranche of unrated bonds was sold, reducing the Group's holding in a UK SPV. However, the Group retained a significant holding of the most subordinate unrated tranches of the vehicle and was considered to be exposed to the majority of the variability of the returns and the vehicle was not deconsolidated.

Loans originated through the platform

The Group originates SME loans through its platform which are funded primarily by, banks, asset managers, other institutional investors, national entities, retail investors or by usage of its own capital. Judgement is required to determine whether these loans should be recognised on the Group's balance sheet. Where the Group, its subsidiaries or SPVs which it consolidates have legal and beneficial ownership to the title of those SME loans, they are recognised on the Group's balance sheet. Where this is not the case, the loans are not recognised at the point of origination.

Key sources of estimation uncertainty

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

Estimated impairment of non-financial assets (note 7, 8 and 9)

Non-financial assets (primarily goodwill, intangible assets and property, plant and equipment) are held within the Group within cash-generating units ("CGUs") which are expected to benefit from the assets. The Group has three CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries, Funding Circle Ltd ("FCUK") and its subsidiaries and the German and Dutch businesses (Funding Circle Continental Europe or "FCCE"). These assets are assessed annually for impairment or when indicators of impairment are identified. Following the impact of Covid-19 and a change in the Group's income and cost forecasts, the Group undertook an impairment review of non-financial assets in each applicable CGU.

The impairment test involved comparing the carrying value of the non-financial assets held for use to their recoverable amount for each CGU. The recoverable amount represents the higher of the CGU's fair value net of selling costs and its value in use, which were determined using discounted cash flow methodology. In undertaking the impairment assessment it was noted that the recoverable amount of FCUK was not sensitive to estimation uncertainty, nor was FCCE as the non-financial assets were previously impaired for the year ended 31 December 2019.

The review identified impairment to the goodwill in FCUSA as the fair value less cost to sell calculated was below the carrying amount and the goodwill was fully impaired by £12.0 million. IAS 36 allocates impairment losses first to goodwill followed by other non-financial assets; however, it prohibits the reversal of goodwill impairment. As a result the impairment assessment is not sensitive to a higher estimation of the recoverable amount, but a lower estimated recoverable amount could lead to impairment of intangible assets within the CGU which are held at a carrying value of £8.7 million and property, plant and equipment totalling £11.2 million (excluding certain right-of-use assets identified as separate CGUs).

The Group prepared a five-year forecast for the FCUSA CGU for which the majority of the sensitivity to estimation uncertainty is in the growth rate applied to the fifth year which is forecast out into perpetuity. The cash flow projections are based on the following key assumptions presented along with the sensitivity to a reduction in the recoverable amount for each key assumption:

- fifth-year income growth of 27.0%. A 480bps reduction in projected fifth-year income growth rate with no cost reduction would decrease the recoverable amount by £16.2 million to be equal to the carrying value.
- Fifth-year cost growth of 16.0%. A 520bps increase in projected fifth-year cost growth rate with no income increase would decrease the recoverable amount by £16.2 million to be equal to the carrying value.
- pre-tax discount rate of 13.0%. A 270 bps increase in discount rate would decrease the recoverable amount by £16.2 million to be equal to the carrying value.
- income beyond the five-year period extrapolated using an estimated growth rate of 1.5%. A reduction in the growth rate to 0.0% would reduce the recoverable amount by £6.9 million.

During the prior year ended 31 December 2019, impairment was identified in relation to the goodwill and tangible and intangible assets of the German and Dutch businesses within the Developing Markets segment. Based on the performance of the German and Dutch businesses and changes to the medium-term outlook for the non-financial assets included within the associated CGU it was determined that the carrying value exceeded the recoverable amount. Goodwill was previously fully impaired by £29.0 million, tangible fixed assets by £0.7 million and intangible assets by £4.6 million. There was not considered to be a recoverable amount in relation to these assets.

Fair value of financial instruments (note 13)

At 31 December 2020, the carrying value of the Group's financial instrument assets held at fair value was £547.9 million (31 December 2019: £754.8 million) and the carrying value of financial liabilities carried at fair value was £7.8 million (2019: £20.0 million).

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

Sensitivities to the default rates and discount rates are illustrated below.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (warehouse)	221.8	Lifetime cumulative default rate as % of original	US: 18.1% and 21.6%[1] UK 15.4%	A change in the lifetime cumulative default rate would have the following impact: US: +/-300 bps would decrease/increase fair value by £3.8 million. UK: +/-330 bps would decrease/increase fair value by £7.1 million.
Investment in SME loans (securitised)	279.8	Lifetime cumulative default rate as % of original	US: 21.9% and 24.0%[1] UK 16.8%	A change in the lifetime cumulative default rate would have the following impact: US SPV1[1]: +/-140 bps would decrease/increase fair value by £2.0 million. US SPV2[1]: +/-200 bps would decrease/increase fair value by £4.0 million. UK: +/- 300 bps would decrease/increase fair value by £2.6 million.
Bonds (unrated)	(7.8)	Lifetime cumulative default rate of associated assets.	16.8%	A change in the lifetime cumulative default rate by+/-300 bps would decrease/increase fair value by £2.3 million and (£0.9) million respectively.

[1]Two cumulative default rates are presented for the US representing the portfolios in each of the two respective warehouses and two respective securitisation vehicles. Separate sensitivities to default rates for the US securitisation vehicles represent the respective seasoning of the loans and the different reasonably possible range of outcomes.

The above sensitivities represent management's estimate of the reasonably possible range of outcomes and as a result the fair value of the assets and liabilities measured at fair value could materially diverge from management's estimate.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (warehouse)	221.8	Discount rate	US: 7.8% UK: 7.8%	A change in the discount rate by +/-100 bps would decrease/ increase fair value by £3.1 million.
Investment in SME loans (securitised)	279.8	Discount rate	US: 7.8% UK: 7.8%	A change in the discount rate by +/-100 bps would decrease/ increase fair value by £3.7 million.
Bonds (unrated)	(7.8)	Discount rate	21.7%	A change in the discount rate by +/-100 bps would decrease/ increase fair value by £0.2 million.

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

As the discount rate is risk adjusted, it should be noted that the sensitivities to discount rate and to lifetime cumulative default rate contain a level of overlap regarding credit risk. The sensitivity in expected lifetime cumulative defaults should not also be applied to the sensitivity of the credit risk element of the risk-adjusted discount rate and the sensitivities are most meaningful viewed independently of each other.

Loan repurchase liability (note 12)

In certain historical circumstances, in new markets, predominantly Germany and the Netherlands, Funding Circle has entered into arrangements with institutional investors to assume the credit risk on the loan investments made by the institutional investors. The Group must estimate the expected credit loss ("ECL") for these commitments at each reporting date.

In order to quantify the ECL, IFRS 9 is followed. Estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information including macroeconomic forecasts such as changes in interest rates, GDP and inflation in each market together with the impact of loan defaults. It is estimated that in both the European markets defaults will have already peaked in H2 2020 and will de-stress gradually afterwards, with Germany expected to fair more favourably than the Netherlands as a result of the government stimulus programme. The most significant estimation is with default rates on performing loans. For the year ended 31 December 2020 the weighted average lifetime default rate is estimated at 20.5% under stress assumptions (2019: 12.9% without Covid-19 stress). If the weighted average default rate estimate were to change by +/-240 bps, the liability would change by £1.2 million for the year ended 31 December 2020 (2019: £1.5 million). It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-240 bps and as a result it is possible that the liability in future could materially diverge from management's estimated value.