sme Credit Realisation Fund Limited

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 March 2020

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FORWARD-LOOKING STATEMENTS

This report includes statements that are, or may be considered, "forward-looking statements". The forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative, or other variations or comparable terminology. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

FINANCIAL HIGHLIGHTS

- Total comprehensive loss for the year amounted to £5.25 million (2019: comprehensive loss of £0.59 million).
- Aggregate dividends of 5.25 pence per Ordinary share declared for the year ended 31 March 2020 (2019: 4.25 pence).
- Total shares bought back during the year was 32,497,167 (31 March 2019: 11,239,500) at an average price of 81.96p (31 March 2019: 86.30p), which contributed 0.54% (31 March 2019:+0.21%) to the NAV total return for the year.
- The Company redeemed a total of 32,245,772 shares for a total amount of £30,499,833 during the year.

The information below is presented for the year ended 31 March 2020 or as at 31 March 2020 unless expressly stated to cover a different period.

NAV per Ordinary share	Total Net Assets	Ordinary share price	Market Capitalisation	Premium / (Discount)
89.05p	**£230mil**	**48.5p**	**£125mil**	**(45.5%)**

Annualised Dividends per Ordinary share	Earnings per Ordinary share	Share Price Total Return (inception to date)	NAV Total Return (inception to date)
5.25p	**(1.80)p**	**(39%)**	**13.4%**

SUMMARY INFORMATION

About the Company

SME Credit Realisation Fund Limited (the “Company” or the “Fund”) is a closed-ended investment company incorporated with liability limited by shares in Guernsey under The Companies (Guernsey) Law, 2008 (as amended), on 22 July 2015.

Group Structure

The Company holds a number of its investments in loans through Special Purpose Vehicles (“SPVs”). This annual report for the year ended 31 March 2020 (the “Annual Report”) includes the results of Basinghall Lending Designated Activity Company (“Basinghall”), Tallis Lending Designated Activity Company (“Tallis”), Lambeth Lending Designated Activity Company (“Lambeth”), and Queenhithe Lending Designated Activity Company (“Queenhithe”). The Company, Basinghall, Tallis, Lambeth and Queenhithe are collectively referred to in this report as the “Group”.

Capital Management

As at 31 March 2020 the total number of shares in issue was 258,301,354 (2019: 323,044,293) excluding 586,243 (2019: 11,239,500) shares held in treasury.

The scrip dividend programme has been discontinued by the Company in line with the change in the Company’s Investment Objective and Policy as discussed below. In the prior year, the Company issued scrip dividends with a value of £1,667,415, involving the issuance of 1,609,898 shares.

On 21 May 2019, the Company published a circular and notice of an EGM which set out details of, and sought shareholder approval for, certain Proposals. The Proposals involved modifying the Company’s Investment Objective and Policy to reflect a realisation strategy, for the detailed reasons set out in that circular, and amending its Articles to include a mechanism to enable the Company to redeem shares in the Company compulsorily so as to return cash to shareholders.

The Company continued its programme of repurchasing its shares in the secondary market during the current year. As at 31 March 2020, the Company has purchased a total of 43,736,667 shares (2019: 11,239,500) of which 586,243 remain held in treasury. During the year, a total of 43,150,424 shares held in treasury were cancelled and formally discharged.

Following the COVID-19 pandemic and the uncertainty around its impact, the directors resolved to suspend the programme of repurchases of its own shares on 2 April 2020 until further notice.

On 11 June 2019, the Proposals were approved at the EGM as discussed in detail in the Strategic Report on page 5.

The Company redeemed a total of 32,245,772 shares for a total amount of £30,499,833 throughout the year.

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to write to you to provide an update on the Company's progress for the year ended 31 March 2020. You will recall from previous reports, circulars and announcements that the Company continues to conduct a managed wind-down of its activities, with the objective of returning capital to shareholders promptly whilst seeking to maximise returns.

COVID-19 Pandemic

Since I last wrote to you in December 2019, the Company, alongside investment markets as a whole, has been seeking to come to terms with the economic and human consequences of the COVID-19 pandemic. Quite apart from the human tragedies that have been presented through media channels, the economic impact on small and medium sized enterprises and their owners can only be described as severe and as of the time of writing, ongoing. It has been widely reported that smaller business enterprises have been, similar to the wider economy, affected by the limitations on social mobility and unprecedented declines in business activity arising from attempts to curtail the spread of the pandemic. The Board welcomes the various efforts by governments and central banks to introduce initiatives to provide support for such enterprises, however at this time it is too early to fully assess the level of effectiveness of such initiatives. It will be no surprise then that the value of the Company's loan portfolio has been negatively impacted by COVID-19, a result that is not unique to SMEs.

Performance Review and Net Asset Value ("NAV")

This report presents the financial position of the Company as at 31 March 2020.

You will have noted the announcement made by the Company on 2nd June 2020 disclosing the Company's NAV at 31 March 2020 at £230 million (31 December 2019: £259 million) and NAV per Share at that date at 89.05 pence. Further, the Company's factsheet published on the same day, disclosed the following:

> "*Underlying loan performance as at 31 March 2020 was largely unaffected by COVID-19, however the gradual phasing in of restrictive measures through the latter half of March and the consequent effect on the economy would be expected to impact future loan performance. The assumptions used for forecasting expected credit losses ("ECL"), as required under IFRS 9, have therefore been adjusted for this. The Fund increased the weighting to the existing pre-COVID downside economic scenario to 100% (which reflects losses in a similar range to those experienced in the 2008 global financial crisis); this results in an increase in provisions of £5.1m. Similarly, changes to expected loan performance resulted in a £5.7m write-down of the Fund's interest in a levered portfolio*."

An analysis of the performance of the Company for the 6 month period to 31 March 2020 (with the 6 month period to 30 September 2019 for comparative purposes) is set out below:

Return Attribution

	1 Oct 2020 to 31 Mar 2020	1 Apr 2019 to 30 Sep 2019
Gross Income	4.53%	5.66%
Impairment & FV Adj. (IFRS 9 basis)	(6.63%)	(3.29%)
Servicing Fees	(0.38%)	(0.47%)
	(2.48%)	**1.90%**
Operating Expenses	(0.56%)	(0.44%)
FX Hedging Costs	0.01%	(0.04%)
Loan Interest Expense	(0.11%)	(0.24%)
Share Buybacks	0.27%	0.89%
Share Redemption	(0.43%)	-
Net NAV Return	**(3.30%)**	**2.07%**

Performance since 31 March 2020

Since the financial year end, the Board has been closely monitoring the evolution of data points within the Company's loan portfolio to form an assessment as to the extent to which borrowers have been impacted by the economic consequences of the pandemic in their ability to satisfy their loan repayment obligations. Data shows after an initial sharp expansion of delinquencies, trends have broadly stabilised as governmental support measures have become available. Despite the trend towards stabilisation, there are a number of material risks to the downside:

CHAIRMAN’S STATEMENT

Performance since 31 March 2020 – (continued)

- economic reactivation stabilises at a “new normal” level which is materially below that which existed at the time of loan initiation, calling into question the viability of some business plans in the medium term;
- the impact of progressive withdrawal of governmental stimulus and support schemes; and
- the potential for a resurgence in the scale of pandemic activity and thus potential for further restrictions on social mobility and levels of business activity.

That said, the combination of global fiscal and monetary policy efforts and lender-specific forbearance measures appear to be somewhat mitigating these downside risks. Ultimately though, it is difficult to say at this point how successful these efforts will be in mitigating the economic malaise resulting from the COVID-19 pandemic.

This assessment is complicated by a number of factors, including but not limited to:

- the timing of initiation of accessible governmental stimulus and support measures;
- effectiveness of forbearance measures;
- time lag effects in data reporting; and
- Regional and industry sector concentration impacts.

Given the uncertainty, there is inherent difficulty with assessing the likelihood or scale of impact of any of the above risk factors at this time.

The Board has recently published the NAV of the Company as at 30 June 2020. I would draw your attention to a change in the basis of computation of the net asset value, necessitated by the requirements of IFRS in the context of the Company’s continuing managed wind-down. With effect from 1 April 2020, and the first subsequent valuation date of 30 June 2020, the Company now measures its loan portfolios using a fair value accounting model which seeks to determine the present value of future cash flows from the Company’s loan portfolios by utilising statistical portfolio data in relation to prepayment, default and post default recovery trends and then applying a suitable discount rate derived primarily from market comparables. The Board believes that this methodology better reflects the value of the Company’s loan portfolios as well as providing useful calibration against potential portfolio sale bid pricing. For the purposes of the 30 June 2020 NAV, portfolio data up to 30 June 2020 has been utilised, and is thus reflective, in part, of pandemic-related credit performance. Had the NAV been calculated on an amortised cost basis as at 30 June 2020, the value so derived would have been £198 million (£191 million calculated on a fair value basis).

Return of Capital

You will note that the Company’s net asset value has reduced from £282 million at 30 September 2019 to £230 million at 31 March 2020, as the Company continues to make distributions to shareholders. In the 6 month period to 31 March 2020, £30 million was distributed to shareholders through compulsory share redemptions, £7 million through dividend payments and £6 million through share repurchases. The balance of the movement between the two period ends is reconciled by portfolio performance.

The Company will continue to return capital to investors predominantly by way of compulsory redemption of shares as liquidity arises through loan repayments or by other means. The directors may also seek to apply free cash to on-market share repurchases if such a strategy is deemed to be in the best interests of shareholders as a whole.

Potential Portfolio Sales

During Q4/19 and Q1/20, the Company made very considerable progress in positioning itself to effect portfolio sales, to the extent that a sale of a portion of the Company’s loan book to a single investor party was being actively pursued at agreed pricing, prior to the onset of the pandemic. Inevitably, the intended transaction was not able to progress to completion, but the Company remains in active discussion with a number of parties and will continue to seek to dispose of its loan portfolios in whole or in part where pricing is attractive by reference to portfolio fair values.

Conclusion

The business environment within which the Company is operating is unprecedented, and future performance is inevitably subject to the variable nature of the uncertainty from future pandemic developments and interrelated government and central bank policy steps. Funding Circle have been very materially involved in supporting the Company’s borrowers via the implementation of agreed forbearance measures and governmental loan schemes, which serve to support the servicing ability of borrowers and thus the fair value of the Company’s portfolio. I would like to express my thanks to the Funding Circle team for the support provided to the Company in novel and at times challenging circumstances, and would also like to thank my fellow Board members and our advisors for their industry and wise counsel in ensuring that the Company’s response to the current environment is considered, proportionate and proactive.

RICHARD BOLÉAT
Chairman of the Board of Directors
28 July 2020

STRATEGIC REPORT

Strategy and Business Model

The Group was established to provide shareholders with a sustainable and attractive level of dividend income, primarily by way of investment in Credit Assets originated both directly through the platform operated by Funding Circle and indirectly, in each case as detailed in the Company's original investment policy. The Group identified the Funding Circle platform as a leader in the growing direct lending space to small and medium sized enterprises ("SMEs") with its established infrastructure, scale of origination volumes and expertise in accurately assessing loan applications.

On 11 June 2019, the Company changed its Investment Objective and Policy to facilitate a managed wind-down of the Company in a prudent manner consistent with the principles of good investment management as required by the Listing Rules.

Investment Objective and Policy

In order to implement the managed wind-down, it was necessary to amend the Company's Investment Objective and Policy to reflect the objective of realising the Company's portfolio.

The Investment Objective and Policy applicable prior to the approval of the Proposals was set out in the prior year Annual Report and also appended to the circular published on 21 May 2019. The revised Investment Objective and Policy is set out below.

> *"The Company will be managed with the intention of realising all remaining assets in the portfolio in a prudent manner which achieves a balance between maximising the value from the realisation of the Company's investments and making timely returns of capital to shareholders."*

The managed wind-down is being operated with a view to the Company realising all of its investments in accordance with the Investment Objective. Such realisations will comprise natural amortisation of the Company's investments in Credit Assets as well as potentially opportunistic portfolio sales.

During the financial year, the Company ran an auction process as the Board explored a potential sale of a portion of the Company's assets during which it received a high level of interest from potential buyers. As announced in April 2020, it is still the Company's intention to effect a sale of a portion of its assets and the Company continues to engage with potential buyers. That said, given the recent market volatility and uncertainty caused by COVID-19, it is likely the asset sales shall be delayed, or may not proceed at all.

As a result of the Company's change in investment objective and policy, for the purposes of accounting, the Company's business model was deemed to have changed from hold to collect to hold to collect and sell during the financial year. The Company is therefore required to report under fair value accounting for the valuation of Credit Assets from 1 April 2020. This change in methodology is discussed further in notes 2 and 17.

The Company will not allocate further capital to Credit Assets, directly or indirectly via Leveraged Transactions or SPVs, or undertake capital expenditure except where necessary in the reasonable opinion of the Board in order to protect or enhance the value of any existing investments or to facilitate orderly disposals.

As at 31 March 2020, the Company held indirect investments in loans through the following investing companies:

Investing Company	Jurisdiction of Loans
Basinghall	**United Kingdom**
Tallis	**Germany, the Netherlands and Spain***
EIB SPV	**United Kingdom**
Lambeth	**United Kingdom**
Queenhithe	**United Kingdom**

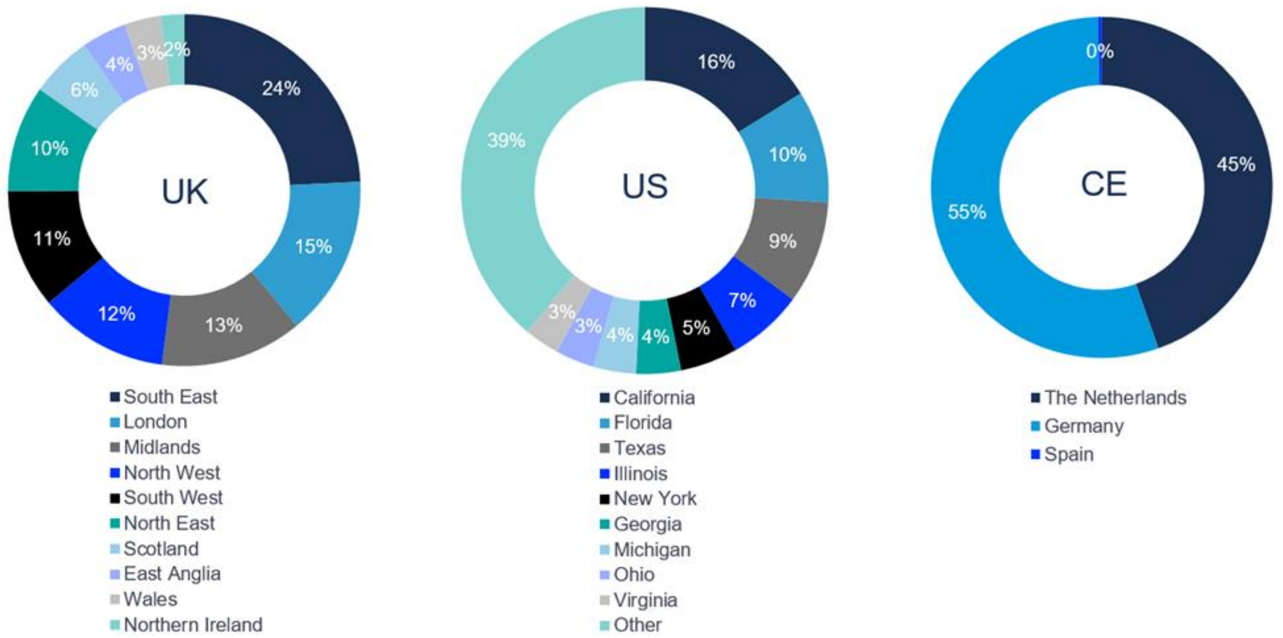
*From January 2017, Tallis discontinued further lending to Spain. The Company retains a small portfolio of loans in Spain.

STRATEGIC REPORT

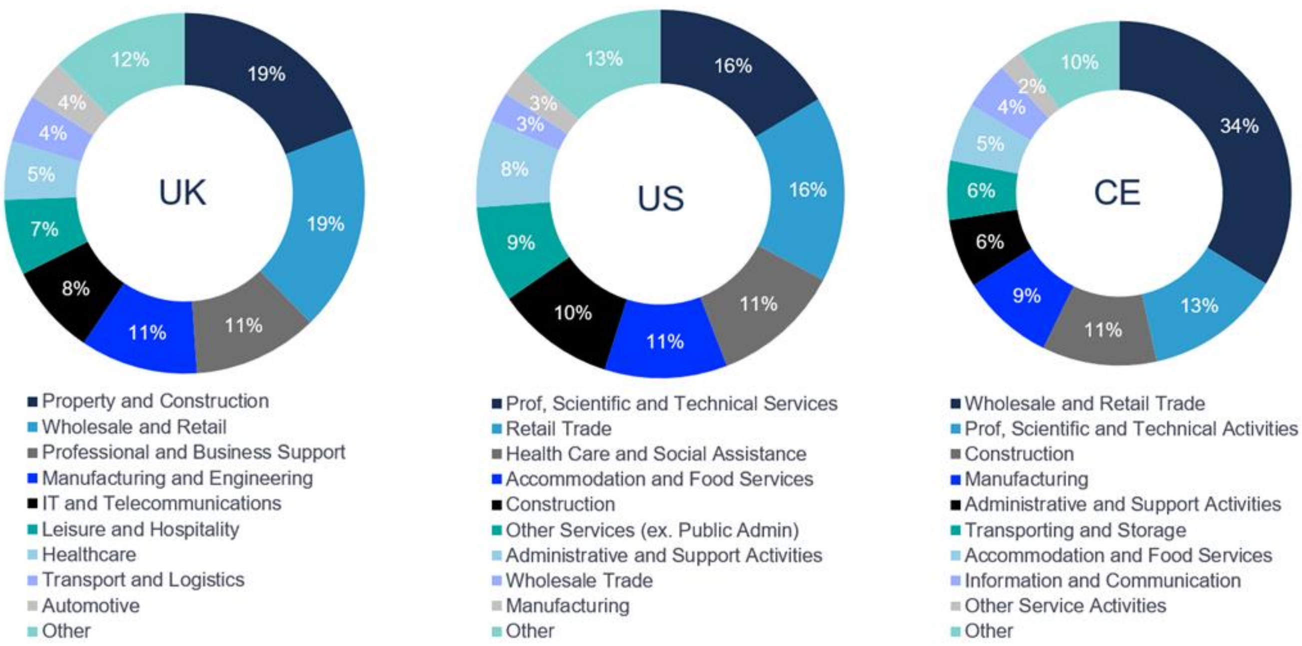
Investment Objective and Policy – (continued)

The following analyses of the Group's investments in Credit Assets are provided as reference.

Region Split



Industry Split



Basinghall, Tallis, Lambeth, Queenhithe and the EIB SPV were formed solely in connection with the implementation of the previous investment policy of the Company.

Investment Objective and Policy – (continued)

Loans acquired by Basinghall, Tallis and the EIB SPV (subject to the investment policy, any Portfolio Limits and Available Cash) were funded, in whole or in part, by advances made by the Company under the note programmes. The notes issued by Basinghall and Tallis to the Company are listed on the Irish Stock Exchange. Loans acquired by Lambeth and Queenhithe were funded in part by Basinghall.

The assets held by each of Basinghall, Tallis, Lambeth, Queenhithe and the EIB SPV are ring-fenced from other entities or SPV's and there is no cross-collateralisation between the SPV's in which the Company invests.

Borrowing Limitation

In pursuit of the original investment objective, the Company was able to borrow or use leverage, and also guarantee the borrowings of its Affiliates and Near Affiliates. The aggregate leverage or borrowings of the Company, its Affiliates and any Near Affiliates (including Basinghall, Tallis, Lambeth and/or Queenhithe) and guarantees of such borrowing or leverage by such person(s), was not permitted to exceed (at the time the relevant indebtedness is incurred or guarantee given) 0.5 times the then current NAV.

Following the approval of the resolution to execute a managed wind-down of the Company in its EGM on 11 June 2019, the leverage limit as described above no longer applies to the Company.

Principal Risk and Risk Management

There are a number of actual and present and emerging risks and uncertainties which could have a material impact on the Group's actual results which may differ materially from expected and historical results, particularly given the implementation of the managed wind-down.

The Board of Directors has overall responsibility for risk management and internal control within the context of achieving the Company's objectives. The Board agrees the strategy for the Company, approves the Company's risk appetite and monitors the risk profile of the Company. The Company also maintains a risk register to identify, monitor and control risk concentration, which has been updated to reflect the managed wind-down.

The Company has established a risk matrix, consisting of the principal and emerging risks and the controls in place to mitigate those risks. The risk matrix provides a basis for the Audit Committee and the Board to regularly monitor the effective operation of the controls and to update the matrix when new risks are identified. The Board's responsibility for conducting a robust risk assessment are embedded in the Company's risk matrix and stress testing which helps position the Company to ensure compliance with The Association of Investment Companies Code of Corporate Governance's ("the AIC Code") requirements.

The Board continues to monitor the Company's systems of risk management and internal control and will continue to receive updates from the Company's external service providers to ensure that the principal risks and emerging risks faced by the Group are fully understood and managed appropriately. The Board did not identify any significant weaknesses during the year and up to the date of this Annual Report.

An overview of the principal risks and uncertainties that the Board considers to be currently faced by the Company are provided below, together with the mitigating actions being taken. The Directors have also linked the key performance indicators to the risks where relevant. Risks arising from the Group's use of financial instruments are set out in note 17 of the consolidated financial statements.

Principal risk	Mitigation and update of risk assessment	Company's financial Alternative Performance Measures ("APM") affected by risk
Default risk Borrowers' ability to comply with their payment obligations in respect of loans may deteriorate due to adverse changes in economic and political factors. Actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations. The COVID-19 pandemic has had a significant economic impact across the world. As at 31 March 2020, the pandemic's impact on the level of delinquencies across each of the Group's loan portfolios has been minimal, although it has been more significant since that date. It is still uncertain how performance will be affected in the mid to long term.	Although the magnitude of the pandemic cannot be quantified at this stage, the directors are monitoring delinquency and default levels on each of the separate loan portfolios, as well as the impact of government initiatives and forbearance measures implemented by Funding Circle. The directors have limited options available to them that will minimise the impact of the risk as the measures and initiatives being put in place are outside of their control. Economic uncertainties or developments as well as unemployment may impact upon default rates.	Total distributions to the shareholders. Credit losses

STRATEGIC REPORT

Principal risk	Mitigation and update of risk assessment	Company's financial APM affected by risk
Future wind-down risk Below are the key risks associated with the managed wind-down of the Company, beyond those inherent in the holding of amortising Credit Assets. Further details are available within the Circular published on 21 May 2019:		
The Company has conducted a price discovery process for the purpose of determining whether it is in the interests of the Company and shareholders as a whole to dispose of certain portions of the Company's loan portfolios, "en bloc". The Company's price discovery process has not resulted in a consummated transaction or transactions. Following the COVID-19 pandemic, any price discovery process undertaken again in the future is likely to be impacted by the pandemic and its effects on the perceived value of the Company's loan portfolios.	The board will continue to monitor the impact of the COVID-19 pandemic and changes in the valuation of the different loan portfolios before considering pursuing further price discovery processes and opportunistic portfolio sales. The board will actively monitor and control the preparation and price discovery process to seek to ensure that it is operationally and economically optimised.	Total distributions to the shareholders. NAV total return
As the managed wind-down proceeds, and capital is returned to shareholders, the Company's fixed and variable costs, some of which are not capable of material mitigation due to the publicly listed status of the Company, are likely to rise as a proportion of the Company's net asset value, prior to dissolution of the Company.	The board will actively seek to "right size" the Company's overhead base as net asset value reduces, through renegotiation with counterparties and potential restructuring of the Group to minimise unnecessary fixed and variable costs.	Total distributions to the shareholders.
The Company deploys surplus liquidity arising from portfolio amortisation and, potentially, portfolio sales, by way of capital return to shareholders. This capital return may take the form of dividends, share buybacks and compulsory redemptions of shares or any combination of these techniques. The balance of techniques used may result in greater or lesser share price volatility and varied tax treatments for investors.	The board will actively seek to manage the use of various capital return techniques so as to seek to fairly balance the differing outcomes of those techniques.	Share price volatility
As the size of the Company's non-UK portfolios decrease through amortisation (in the absence of portfolio sales), the Company's ability to deploy foreign currency hedges at appropriate cost may be impaired.	The board will seek to maintain and enhance banking counterparty relationships to seek to retain access to institutional pricing.	Total distributions to the shareholders.
As the Company moves through the wind-down process, accounting standards will require the Company to prepare its accounts on a basis other than going concern in the future.	The board will review any adjustment required to the values of the Group's assets and liabilities when the basis of accounting changed to non-going concern.	Share price volatility and total distributions to shareholders.

STRATEGIC REPORT

Principal risk	Mitigation and update of risk assessment	Company's financial APM affected by risk
As the natural amortisation of the Company's investments in credit assets takes place and potentially opportunistic portfolio sales have been pursued, the latter requires the adoption of a fair value methodology for the valuation of Credit Assets from 1 April 2020 onwards. This valuation method will be reflective of what the market would be willing to pay for the portfolios of credit assets and may differ significantly from the amortised cost method of measurement currently used. This also requires the Company to incur third party costs to enable accurate measurement of fair values. Estimated fair values on the credit assets are presented in note 17.	Competitive tendering took place in order to minimise third party costs incurred for the measurement of fair value. The NAV calculated on a fair value basis as at 30 June 2020 was £191.0m and under the previous amortised cost method would have been £198.0m. This caused a decrease in NAV total return as at 30 June 2020 of 3.04%.	Share price volatility and NAV total return

As part of the process of evaluating principal risks, the board also identifies emerging risks and how they impact on the Group's managed wind down process. The likelihood of occurrence of each risk and the extent of financial effect to the Group are considered when the board makes economic decisions. Along with the update on the principal risks to take into account the impact of the COVID-19 pandemic to the Group, the board identified the following as emerging risks:

Changes in the tax regulation in jurisdictions where the Group operates could have an impact on the treatment of income generated from loans held in subsidiaries

The Company holds assets indirectly through subsidiaries established in Ireland. There have been recent developments in the tax regulation in Ireland that could impact on the revenue generated from the Company's subsidiaries.

There is currently no indication that this will become a principal risk to the Group but the Board will continue to monitor.

In addition to the principal and emerging risks considered above, the Board also considers other key operational risks as part of its ongoing risk monitoring process.

The Company has no employees and is reliant on the performance of third party service providers

The Company's investment administration functions have been outsourced to external service providers. Any failure by any external service provider to carry out its obligations could have a materially detrimental impact on the effective operation, reporting and monitoring of the Company's financial position. This may have an effect on the Company's ability to meet its investment objective successfully. The Board receives and reviews quarterly reports from its principal external service providers. The Board may request a report on the operational effectiveness of controls in place at the service providers. The results of the Board's review are reported to the Audit Committee.

Cybersecurity breaches

The Company is reliant on the functionality of Funding Circle's software and IT infrastructure to facilitate the process of servicing the Company's remaining Credit Assets. The Company is also reliant on the functionality of the IT infrastructure of its other service providers. These systems may be prone to operational, information security and related risks resulting from failures of, or breaches in, cybersecurity.

Along with other holders of risk assets generally, the Group is exposed to a range of macroeconomic, geopolitical and regulatory factors which could, in certain circumstances either individually or in combination have a negative effect on carrying values, portfolio returns, delinquencies and operating costs. These factors are kept under review by the Board and relevant Board committees as appropriate.

Hedging

The Board's policy is to seek to fully hedge currency exposure between Sterling and any other currency in which the Group's assets are denominated. During the year, the Company entered into forward foreign exchange contracts to minimise the risk of loss due to fluctuation of the Sterling to US Dollar exchange rate and the Sterling to Euro exchange rate in pursuance of this policy. There were unavoidable costs incurred in the hedge related to the interest rate differential between Sterling and US Dollars in the Group's assets and liabilities.

Foreign currency hedging activity is carried out by a specialist third party on behalf of the Company, in accordance with the hedging policy that the Board maintains.

STRATEGIC REPORT

Financial Performance

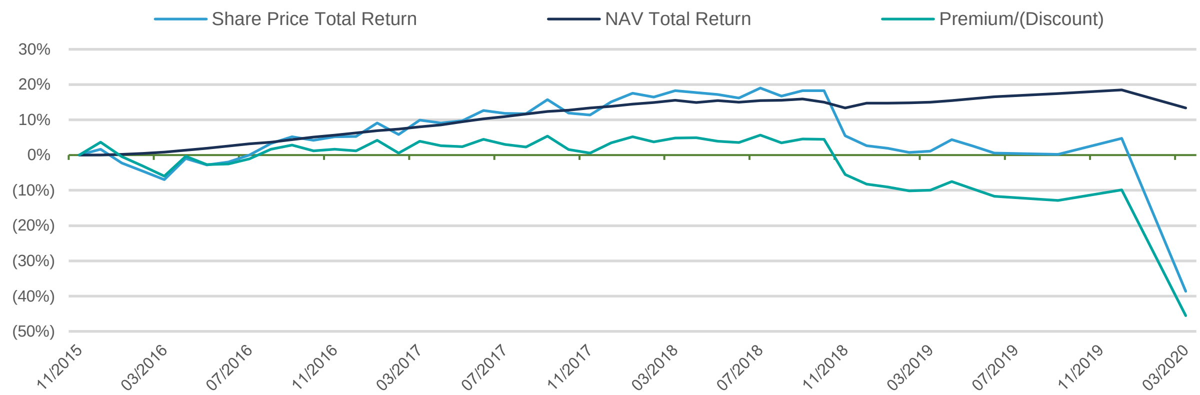
The key transactions and events that had an impact on the Group's performance are set out in the Directors' Report.

The Board continues to monitor the following which are considered as the Group's alternative performance measures in the context of the managed the wind down:

- Share price total return
- NAV total return
- Share price premium or discount to NAV
- Dividend per share
- Credit losses

The Board notes that some or all of the key performance indicators used in the past are less relevant now that the Company has started the process of the managed wind-down.

Total return and share price premium/(discount)



Dividend per share

The Board declared dividends during the year totalling 5.25 (2019: 4.25) pence per Ordinary share. In May 2019, the Company published a circular and notice of EGM which set out details of, and sought shareholder approval for, certain Proposals. Pursuant to the Proposals, the Company has the power, under the New Articles, to make Compulsory Redemptions of shares in volumes and on dates to be determined at the Directors' sole discretion, with the amount distributed in respect of the shares on each occasion representing the cash available for distribution by the Company at the relevant time.

On 11 June 2019, the Proposals were approved at the EGM as discussed in detail in this Strategic Report on page 5. In addition to distributions made by way of the Compulsory Redemption process, or by means otherwise determined appropriate by the Directors, the Company currently intends to maintain quarterly dividend payments of 5.25 pence per Ordinary Share on an annualised basis, which may be partially uncovered by income. The Directors will continue to periodically review the Company's dividend policy in response to shareholder feedback and the progression of the managed wind-down.

Credit losses

The Board carefully monitors the level of defaults arising within the Group's portfolios. The credit loss provision as at 31 March 2020 was £59.0m against outstanding principal and interest amounts of the loan portfolios of £259.1m (31 March 2019: provision of £36.6m against outstanding principal and interest amounts of the loan portfolio of £340.2m).

The increase in credit losses during the year was mainly caused by loans moving into stage 3 of impairment and change in expected credit loss assumptions to allocate full weighting to the pre COVID-19 downside scenario.

For further information on the movement in credit losses, refer to note 4.

Viability Statement

The Directors consider that a period of three years is a reasonable timeframe for making an assessment of the Company's viability taking into account the process of achieving the managed wind-down.

In their assessment of the viability of the Company, the Directors have considered each of the principal and emerging risks listed on pages 7 to 9 and in particular the risks associated with the managed wind-down and the ongoing COVID-19 pandemic.

STRATEGIC REPORT

Viability Statement – (continued)

The Board believes that the principal risks, other than tail risks beyond its control, that may impact on the Company's ability to continue as a viable business are:

- Default risk; and
- Future wind down risks detailed above on page 8

The Directors have also considered the Company's income, expenditure and cash flow projections and the fact that the Company's investments held directly or through its subsidiaries do not comprise readily realisable securities which can be sold to meet funding requirements if necessary. The viability analysis includes a review of higher-level defaults, lower realisable values and higher expenses. The Company maintains a risk register to identify, monitor and control risk concentration.

The Directors confirm that they believe the Company will be able to continue in operation and pay its liabilities as they fall due over the period of the managed wind-down.

Employees, Social, Human Rights and Environmental Issues

The Company has no employees and the Board comprises five non-executive Directors, all of whom, except Sachin Patel, are independent of Funding Circle. As an investment company, the Company has no direct impact on the community and as a result does not maintain specific policies in relation to these matters.

The Company operates by outsourcing significant parts of its operations to reputable professional companies, who are required to comply with all relevant laws and regulations and take account of social, environmental, ethical and human rights factors, where appropriate.

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions-producing sources, including those within its underlying investment portfolio.

In carrying out its investment activities and in relationships with suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

Diversity and Inclusion

The Board of Directors of the Company comprises five male directors.

The Remuneration and Nominations Committee and the Board are committed to diversity at Board level and is supportive of increased gender and ethnic diversity but recognises that it may not always be in the best interest of shareholders to prioritise this above other factors. The Remuneration and Nominations Committee regularly reviews the structure, size and composition required of the Board, taking into account the challenges and opportunities facing the Company. In considering future candidates, appointments will be made on merit, including taking account of the specific skills, experience, independence, and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition. The commencement of the managed wind-down is inevitably limiting in the Board's ability to implement enhanced diversity and inclusion strategies, given the limited future life of the Company.

Stakeholder Engagement

The AIC Code requires that matters set out in section 172 of the Companies Act, 2006 ("s172 of the Companies Act") are reported notwithstanding the Company is incorporated in Guernsey. As an investment company, the Company does not have any employees and conducts its core activities through third-party service providers. Each service provider is subjected to oversight and control, is required to have in place suitable policies to ensure they maintain high standards of business conduct, treat customers fairly, and employ corporate governance best practice. The Board considers the view of the Company's other key stakeholders as part of its discussions and decision making process. The Board's commitment to maintaining the high-standards of corporate governance recommended in the AIC Code, combined with the directors' duties incorporated into the Companies (Guernsey) Law, 2008, the constitutive documents, the Disclosure Guidance and Transparency Rules, and Market Abuse Regulation, ensures that shareholders are provided with frequent and comprehensive information concerning the Company and its activities. Whilst the primary duty of the Directors is owed to the Company as a whole consideration being given, the Board considers as part of its decision making process the interests of all stakeholders. Particular to the continued alignment between the activities of the Company and those that contribute to delivering the Board's strategy, which include the Portfolio Manager and Administrator. The Board respects and welcomes the views of all stakeholders. Any queries or areas of concern regarding the Company's operations can be raised with the Secretary.

DIRECTORS' REPORT

The Directors present their annual report and audited consolidated financial statements for the year ended 31 March 2020. In the opinion of the Directors, the annual report and audited consolidated financial statements are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

Incorporation

The Company is a limited liability company registered in Guernsey under The Companies (Guernsey) Law, 2008 (as amended) with registered number 60680.

Activities

The Company is registered as a closed-ended collective investment scheme in Guernsey pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. Prior to the amendment of the Company's Investment Objective and Policy, the primary activity of the Company was investment in loans to small and medium sized enterprises in the United Kingdom, the United States and Continental Europe, in order to seek to provide shareholders with a sustainable and attractive level of dividend income. Following the result of the EGM on 11 June 2019, the Company has ceased investment into Credit Assets as the Company's Investment Objective and Policy were updated to facilitate the managed wind-down of the Company.

Results and dividends

The total comprehensive loss for the year, determined under International Financial Reporting Standards ("IFRS"), amounted to £5.25 million (2019: total comprehensive loss of £0.59 million). The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by The Companies (Guernsey) Law, 2008 (as amended). Following the result of the EGM, the Directors expect to maintain quarterly dividend payments of 5.25 pence per Ordinary Share on an annualised basis, which may be partially uncovered by income. Dividends declared during the year are disclosed in note 14.

Business review

On 21 May 2019, the Company published a circular and notice of EGM which sets out details of, and sought shareholder approval for, certain Proposals. Those Proposals involved modifying the Company's Investment Objective and Policy to reflect a realisation strategy and amending its Articles to include a mechanism to enable the Company to redeem shares in the Company compulsorily so as to return cash to shareholders.

On 11 June 2019, the Proposals were approved at the EGM as discussed in detail in the Strategic Report on page 5.

The Strategic Report includes further information about the Company's principal activities, financial performance during the year and indications of likely future developments.

In December 2018, the Company commenced a programme of repurchases of its shares in the secondary market. As at 31 March 2020, the Company has purchased a total of 43,736,667 shares (2019: 11,239,500) of which 586,243 remained held in treasury at 31 March 2020. During the year, a total of 43,150,424 shares which were being held in treasury were cancelled and formally discharged. The share repurchase programme is currently inactive.

The Company also redeemed a total of 32,245,772 shares for a total amount of £30,499,833 throughout the year.

On 11 April 2020, Lambeth fully repaid the remaining amount owed on its senior loan to Citi. The remaining portfolio of credit assets held were transferred to Basinghall on 17 June 2020 and the process is underway in order to put Lambeth into formal liquidation in the coming months.

The World Health Organisation declared COVID-19 as a global pandemic on 11 March 2020. While the full impact of the pandemic cannot be accurately quantified at this point, the Board continues to closely monitor the situation and the impact on the performance of the loan portfolios held by the Group.

The Board receives updates twice per month from Funding Circle on current delinquency and default trends by geographic exposure which also assists in reviewing the assumptions made with respect to expected credit losses. It also reviews information from a range of industry resources including economic forecasts. The Risk Committee also reviews a comprehensive range of other risks that may be impacted by COVID-19.

As a consequence of the societal impacts of the pandemic, there has been an increase in delinquencies for borrowers and a corresponding increased use of forbearance measures for eligible borrowers, including short term payment plans and payment holidays.

As at 30 June 2020, 15% of the combined portfolio by outstanding principal was on forbearance measures through either a partial payment plan or payment holiday, with almost half of those on partial payment plans.

Going concern

The Directors have considered the financial performance of the Group and the impact of market conditions at the financial year end date and subsequently.

Whilst the managed wind-down of the Company continues to progress, there is no definite and final plan in place for the timing of liquidation of the Company's assets and the process of returning capital to shareholders.

Going concern – (continued)

The Company will therefore continue to redeem shares, pay dividends and where appropriate execute further share buy-backs. The Company has prepared cashflow forecasts and liquidity analysis reviewing likely scenarios that are stress tested to support further distributions and to monitor the ongoing solvency of the Company. This is reviewed on a regular basis in light of new information received.

The Directors confirm that they have a reasonable expectation that the Company will pay its liabilities as they fall due over the period of the managed wind-down and as the ongoing COVID-19 pandemic progresses. As a result, the Directors continue to present the consolidated financial statements on a going concern basis.

Alternative Investment Fund Managers Directive ("AIFMD")

The AIFMD requires Alternative Investment Fund Managers ("AIFM") to comply with certain disclosure, reporting and transparency obligations for Alternative Investment Funds ("AIF") that it markets in the EU. The Company is a self-managed AIF for the purposes of the AIFMD and therefore has to comply with the disclosure requirements of the AIFMD.

The Company regularly publishes updates on the website in the form of factsheets. These, along with the regular announcements made through the Regulatory News Service ("RNS") of the FCA, cover the disclosures required by AIFMD.

The Directors consider that any change in respect of which a reasonable investor, becoming aware of such information, would reconsider its investment in the Company, including because the information could impact on the investor's ability to exercise its rights in relation to its investment, or otherwise prejudice that investor's (or any other investor's) interest in the Company should be considered material. In setting this threshold, the Directors have had regard to the current risk profile of the Company which outlines the relevant measures to assess the Company's exposure or potential exposure to those risks. As required by the Listing Rules, any material change to the investment policy of the Company will be made only with the approval of the shareholders and as such, shareholders' approval was sought at the EGM on 11 June 2019 to implement the modification of the Company's Investment Objective and Policy as noted in the Strategic Report.

The AIFMD also requires the Company to disclose the remuneration of its investment manager (if any) providing analysis between fixed and variable fees along with the information of how much of such remuneration was paid to senior management at the investment manager and how much was paid to members of staff. As a self-managed AIF, the Company has no investment manager and thus has no information to report.

United States of America Foreign Account Tax Compliance Act ("FATCA")

Guernsey has entered into an Intergovernmental Agreement ("IGA") with the US Treasury in order to comply with FATCA and has also entered into an IGA with the UK in order to comply with the UK's requirements for enhanced reporting of tax information in accordance with FATCA principles. Under such IGAs, the Company is regarded as a Foreign Financial Institution ("FFI") resident in Guernsey. The Board continues to monitor developments in the rules and regulations arising from the implementation of FATCA in conjunction with its tax advisors.

Common Reporting Standard ("CRS")

On 13 February 2014, the Organisation for Economic Co-operation and Development released the Common Reporting Standard ("CRS") designed to create a global standard for the automatic exchange of financial account information, similar to the information to be reported under FATCA. On 29 October 2014, 51 jurisdictions signed the multilateral competent authority agreement ("Multilateral Agreement") that activates this automatic exchange of FATCA-like information in line with the CRS.

Pursuant to the Multilateral Agreement, certain disclosure requirements may be imposed in respect of certain investors in the Company who are, or are entities that are controlled by one or more, residents of any of the signatory jurisdictions. It is expected that, where applicable, information that would need to be disclosed will include certain information about investors, their ultimate beneficial owners and/or controllers, and their investment in and returns from the Company and its subsidiaries.

Guernsey, along with 60 other jurisdictions, including some EU Member States, has adopted the CRS with effect from 1 January 2016, with the first reporting completed in 2017. The Group continues to comply with the requirements of CRS.

Directors

The Directors who held office during the financial year end and up to the date of approval of this report were:

	Date of appointment
Frederic Hervouet	**12 August 2015**
Jonathan Bridel	**19 August 2015**
Richard Boléat	**19 August 2015**
Richard Burwood	**12 August 2015**
Sachin Patel	**18 May 2017**

Tom Parachini, Global Head of Legal and Regulatory at Funding Circle replaced Phillip Hyett, who was Head of Funds at Funding Circle, as Alternate Director for Sachin Patel on 13 January 2020.

DIRECTORS' REPORT

Directors' shares and interests

A list of all Directors who served during the year and up to the date of this report and their biographies are included on pages 58 to 59.

The appointment and replacement of Directors is governed by the Company's Articles of Incorporation, The Companies (Guernsey) Law 2008 (as amended) and related legislation. The Articles of Incorporation themselves may be amended by special resolution of the Shareholders.

As at 31 March 2020, the Directors held the following Ordinary shares of the Company:

	Number of shares	
	2020	**2019**
Frederic Hervouet	**95,176**	**107,000**
Jonathan Bridel	**4,448**	**5,000**
Richard Boléat	**4,448**	**5,000**
Richard Burwood	**4,448**	**5,000**
Sachin Patel	**—**	**—**
	108,520	**122,000**

During the year, no Director had a material interest in a contract to which the Company was a party (other than his own letter of appointment). Mr. Patel is an employee of Funding Circle Limited.

Substantial shareholdings

As at 31 March 2020, the Company had been informed of the following notifiable interests of 5% or more in the Company's voting rights in accordance with Disclosure and Transparency Rule 5.1.2:

Shareholder	**Number of Ordinary shares**	**Percentage holding %**
Railways Pension Trustee Company Limited	73,387,089	28.35
BlackRock Investment Management (UK) Limited	55,038,829	21.26
Rocket Internet	43,222,322	16.70
Amiral Gestion	30,258,581	11.69

Significant agreements

The Company is not party to any significant agreements which take effect after or terminate upon a change of control of the Company, nor has the Company entered into any agreements with its Directors to provide for compensation for loss of office as a result of a takeover bid.

Information to be disclosed in accordance with UK Listing Rule 9.8.4

A statement of the amount of interest capitalised by the Company during the period under review with an indication of the amount and treatment of any related tax relief.	The Company has not capitalised any interest in the year under review.
Any information required in relation to the publication of unaudited financial information.	Not applicable.
Details of any long-term incentive schemes.	Not applicable.
Details of any arrangements under which a director of the Company has waived or agreed to waive any emoluments from the Company.	Sachin Patel has waived his remuneration.
Details of any pre-emptive issues of equity not for cash.	Not applicable.
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	Not applicable.
Details of parent participation in a placing by a listed subsidiary.	Not applicable.
Details of any contract of significance in which a director is or was materially interested.	Richard Burwood is a Director of Lambeth and Queenhithe. Richard Burwood was a director of Basinghall and Tallis throughout the year until resigning on 13 July 2020. Sachin Patel and Tom Parachini are both employees of Funding Circle Limited. Sachin Patel and Tom Parachini are both Directors of Funding Circle Global Partners Limited ("FCGPL").

DIRECTORS' REPORT

Information to be disclosed in accordance with UK Listing Rule 9.8.4 – (continued)

Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder.	Not applicable.
Details of waiver of dividends by a shareholder.	Not applicable.
Board statement in respect of relationship agreement with the controlling shareholder.	Not applicable.

Disclosure of information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

PricewaterhouseCoopers CI LLP ("PwC") served as auditor during the financial year and has expressed its willingness to continue in office. A resolution to re-appoint PwC as auditor was approved in the Annual General Meeting.

The maintenance and integrity of the Group and Company's website is the responsibility of the Directors. The work carried out by the independent auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company Secretary

The Company Secretary is Sanne Group (Guernsey) Limited of De Catapan House, Grange Road, St Peter Port, Guernsey GY1 2QG.

On behalf of the Board

RICHARD BOLÉAT
Chairman of the Board of Directors

CORPORATE GOVERNANCE REPORT

The Financial Reporting Council ("FRC"), the UK's independent regulator for corporate reporting and governance responsible for the Corporate Governance Code, has endorsed the AIC Code meaning that companies who report in accordance with the AIC Code fully meet their obligations under the UK Corporate Governance Code (the "Code") and the related disclosure requirements contained in the Listing Rules.

Statement of how the principles of the AIC Code are applied

Throughout the financial year ended 31 March 2020 the Company has been in compliance with the relevant provisions set out in the AIC Code and the relevant provisions of the Code. The Code includes provisions relating to: the roles of the chief executive, executive directors' remuneration; and the need for an internal audit function, each of which is not considered by the Board to be relevant to the Company. The Company has therefore not reported further in respect of these provisions.

Board of Directors

The Board is comprised of five Directors, all of whom are non-executive. All the Directors are independent except for Sachin Patel who is an employee of Funding Circle Limited. Richard Boléat is the Chairman of the Board and Jonathan Bridel is the Senior Independent Director. The Company did not use an external search consultancy nor any open advertising in the selection of the Chairman and the non-executive Directors. The Company was satisfied that the formal selection process from a pool of candidates with the relevant expertise and skills was appropriate for the needs of the Company. Biographies of the Directors are shown on pages 58 to 59 and demonstrate the range and depth of skills and experience each brings to the Board.

The Directors ensure that, at all times, the Board is composed of members who, as a whole, have the required knowledge, abilities and expert experience to properly complete their tasks and are sufficiently independent. A Board member is considered independent if he has no business or personal relations which cause a conflict of interest with those of the Company. Every member of the Board ensures that he has sufficient time to perform his mandate. The Board considers the skills, competence and independence of candidates in the context of the overall board composition. The Board has put in place appropriate insurance cover in respect of any legal action against the Directors.

The Board has not stipulated a maximum term of any directorship.

Copies of the letters of appointment are available on request from the Company Secretary.

Independence of Directors

In accordance with the AIC Code, the Board has reviewed the independence of the individual directors and the Board as a whole. Each of the Directors except Sachin Patel is considered independent.

Board evaluation

A formal Board evaluation process has been put in place in line with the Board's policy to monitor and improve performance of the Directors. The Board carries out a formal evaluation process on an annual basis. The Directors complete self-assessment forms which are reviewed and discussed with the Chairman. The Senior Independent Director performs an annual review of the Chairman's performance. The Directors carry out an annual review of the Board as a whole discussing its composition, size and structure and ensuring that there is a good balance of skills and experience. The answers to these questionnaires will be discussed by the Remuneration and Nominations Committee.

The Board shall offer induction training to new Directors about the Company, its key service providers, the Directors' duties and obligations and other matters as may be relevant from time to time. A regular review will be undertaken by the Board to ensure that the Directors' ongoing training and development needs are met.

Election/Re-election of Directors

It is the Company's policy that at each Annual General Meeting of the Company all Directors shall retire from office, but, subject to the Articles, shall be eligible for re-appointment.

Committees of the Board

Audit, Risk, Management Engagement and Remuneration and Nominations Committees have been established by the Board and each Committee has formally delegated duties, responsibilities and terms of reference, which are available from the Company Secretary upon request.

An outline of the responsibilities of each of the Committees is set out below.

Committees of the Board (continued)

Audit Committee

The Board has established the Audit Committee comprising of all the Directors except for Sachin Patel and is chaired by Jonathan Bridel. The Audit Committee meets at least three times a year and is responsible for ensuring, inter alia, that the financial performance of the Company is properly reported on and monitored and provides a forum through which the Company's external auditor may report to the Board. The Audit Committee reviews and recommends to the Board the adoption and approval of the annual and half yearly consolidated financial statements, results, internal control systems and procedures and accounting policies of the Company.

Risk Committee

The Company has established a risk committee, which comprises of all of the Directors, with Frederic Hervouet as chairman. The risk committee meets four times a year or more often if required. The risk committee takes responsibility for the risk management policies of the Company's operations and oversight of the operation of the Company's risk management framework as well as completing all risk reporting for regulatory purposes.

Management Engagement Committee

The Company has established a Management Engagement Committee which is chaired by Richard Burwood and comprises of all the Directors except for Sachin Patel. The Management Engagement Committee meets at least once a year or more often if required. The principal duties of the Committee are to review the actions and judgments of Funding Circle UK, Funding Circle US and Funding Circle CE and also the terms of agreements appointing each of them. The Committee is also responsible for monitoring the compliance of other service providers with the terms of their respective agreements.

Remuneration and Nominations Committee

The Company has established a Remuneration and Nominations Committee which is chaired by Richard Boléat and comprises all of the Directors. The Directors believe that the appointment of the chairman of the Remuneration and Nominations Committee does not affect his independence.

The Remuneration and Nominations Committee meets at least once a year or more often if required. The duties of the Committee include:

- determining and agreeing with the Board the framework or broad policy for the remuneration of the Company's Chairman and non-executive Directors pursuant to the Company's Articles of Incorporation;
- reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes necessary; and
- giving full consideration to succession planning of Directors, taking into account the challenges and opportunities facing the Company.

Meetings and attendance

There were 10 Board meetings held during the financial year ended 31 March 2020. The attendance record of each of the Directors was as follows:

	Number of attendances during the year
Frederic Hervouet	**9**
Jonathan Bridel	**9**
Richard Boléat	**9**
Richard Burwood	**10**
Sachin Patel or designated alternate	**9**

There were 3 Risk Committee meetings, 5 Audit Committee meetings, 1 Management Engagement meetings and 1 Remuneration and Nominations Committee meetings held during the financial year ended 31 March 2020. Phillip Hyett attended 3 Board meetings as alternate to Sachin Patel during the year.

CORPORATE GOVERNANCE REPORT

Meetings and attendance – (continued)

The attendance record of each of the Committee members was as follows:

	Number of attendances during the year			
	Audit Committee	Risk Committee	Management Engagement Committee	Remuneration and Nominations Committee
Frederic Hervouet	5	3	1	1
Jonathan Bridel	5	3	1	1
Richard Boléat	5	3	1	1
Richard Burwood	5	3	1	1
Sachin Patel	N/A	2	N/A	1

Board Observers

Funding Circle UK has the right (pursuant to the Services Agreement) to nominate up to two observers to attend meetings of the Board. Those nominees may (other than in limited circumstances) attend each such meeting as observers, but do not have any rights to participate in the conduct of the business of the Company or to vote on any matter.

The Board may require that those nominees not attend the part of any Board meeting which considers (i) the termination of any agreement to which Funding Circle is party, or (ii) any dispute or litigation between Funding Circle and the Company.

Company Secretary

The Board appointed Sanne Group (Guernsey) Limited to act as Company Secretary on 22 July 2015. The principal duties of the Company Secretary are to monitor compliance with the established corporate governance framework, report to the Board and to arrange and host Board and Committee meetings.

Internal Control Review

The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit Committee. In performing their duties, the Board considered the relevant guidance published by the FRC as they apply to the Group. The systems and controls in place have been in place for the year under review and up to the date of signing of this annual report and audited consolidated financial statements. The results of the Board's review of the systems and controls are presented on page 20.

The Directors may delegate certain functions to other parties such as Funding Circle UK, Funding Circle US, Funding Circle CE, FCGPL, the Administrator and other service providers. In particular, the Directors have appointed Funding Circle UK, Funding Circle US and Funding Circle CE to service the Company's investments in loans and FCGPL to provide corporate services to the Company. Notwithstanding these delegations, the Directors have responsibility for exercising overall control and supervision of the services provided by Funding Circle UK, Funding Circle US and Funding Circle CE, for the risk management of the Company and otherwise for the Company's management and operations.

The Management Engagement Committee carries out regular reviews of the performance of Funding Circle UK, Funding Circle US and Funding Circle CE together with other service providers appointed by the Company.

Investor Relations

All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM or other meetings of shareholders. The notice of the AGM, which is sent out at least fourteen days in advance, sets out the business of the meeting. Shareholders are encouraged to attend the AGM and to participate in proceedings. The Chairman of the Board and the Directors, together with representatives of Funding Circle, will be available to answer shareholders' questions at the AGM.

Shareholders and other interested parties are able to contact the Company through a dedicated investor relations function. Contact details are as follows:

Email: ir@smecreditrealisation.com

Shareholders are also able to contact the Company via the Chairman or Company Secretary as follows:

Richard Boléat

Tel: +44 (0) 1534 615 656

Email: Richard.Boleat@smecreditrealisation.com

Sanne Group (Guernsey) Limited

Tel: +44 (0) 1481 739 810

Email: smecreditrealisation@sannegroup.com

AUDIT COMMITTEE REPORT

Membership

Jonathan Bridel – Chairman (Independent non-executive Director)

Richard Burwood (Independent non-executive Director)

Fred Hervouet (Independent non-executive Director)

Richard Boléat (Company Chairman* and Independent non-executive Director)

* The Board believes it is appropriate for the Company Chairman to be a member of the Audit Committee as he is a Fellow of the Institute of Chartered Accountants in England & Wales and is an independent Director.

Key Objectives

The provision of effective governance over the appropriateness of the Company's financial reporting, taking into account the consolidation of its subsidiaries, including the adequacy of related disclosures, the performance of the external auditor and the management of the Company's systems of internal controls and business risks.

Responsibilities

The primary responsibilities of the Audit Committee are:

- reviewing the Company's financial results announcements and financial statements and monitoring compliance with relevant statutory and listing requirements;
- reporting to the Board on the appropriateness of the Company's accounting policies and practices including critical accounting policies and practices;
- advising the Board on whether the Committee believes the annual report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- scrutiny of the loans held at amortised cost;
- compiling a report on its activities to be included in the Company's annual report;
- overseeing the relationship with and appointment of the external auditor;
- agreeing with the external auditor the audit plan including discussions on the key risk areas within the consolidated financial statements;
- considering the financial and other implications on the independence of the auditor arising from any non-audit services to be provided by the auditor; and
- considering the appropriateness of appointing the auditor for non-audit services.

The Audit Committee members have a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Chairman of the Committee, Jonathan Bridel, is a Fellow of the Institute of Chartered Accountants in England and Wales, and has recent and relevant financial experience, as required by the AIC Code. He serves as Audit Chairman on other listed companies and previously worked in senior positions in banking and finance and investment management including SME lending. The Board is satisfied he has recent and relevant financial experience and has designated him as its financial expert on the Committee. The Committee as a body has the competence and experience relevant to the sector. The qualification of the members of the committee are noted in the biographies section on pages 58 to 59.

Committee Meetings

The Committee meets formally at least three times a year. Only members of the Audit Committee have the right to attend Audit Committee meetings. However, other Directors and representatives of Funding Circle and the Administrator are invited to attend Audit Committee meetings on a regular basis and other non-members may be invited to attend all or part of the meetings as and when appropriate and necessary. The Company's external auditor, PricewaterhouseCoopers CI LLP ("PwC"), is also invited to meetings as is appropriate.

Main Activities during the year

The Committee assists the Board in carrying out its responsibilities in relation to financial reporting requirements, risk management and the assessment of internal controls and key procedures adopted by the Company's service providers. The Committee also manages the Company's relationship with the external auditor and considers the appointment of external auditor, discusses with the external auditor the nature and scope of the audit, keeps under review the scope, results, cost and effectiveness of the audit and reviews the independence of the external auditor. The Committee also considers the objectivity of the auditor and reviews the external auditor's letter of engagement and management letter.

Meetings of the Committee generally take place prior to a Company Board meeting. The Committee reports to the Board, as part of a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of their work. The Board requires that the Committee advise it on whether it believes the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

AUDIT COMMITTEE REPORT

Main Activities during the year – (continued)

At its meetings during the year, the Committee focused on:

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with Funding Circle, the Administrator and the External Auditor the appropriateness of the half-year and annual consolidated financial statements concentrating on, amongst other matters:

- The quality and acceptability of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including the application of IFRS 9 and IFRS 10;
- Material areas in which significant judgments have been applied or where there has been discussion with the external auditor;
- Whether the annual report and consolidated financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- Any correspondence from regulators and listing authorities in relation to financial reporting.

To aid its review, the Committee considers reports from Funding Circle and the Administrator.

Significant risks

In relation to the annual report and consolidated financial statements for the year ended 31 March 2020, the following significant risks were considered by the Audit Committee as they are most relevant to the nature of the Group's business:

- **Impairment and carrying values of loans advanced**

  The measurement of loans advanced is in accordance with the accounting policy set out in note 3 of the consolidated financial statements. A formal policy has been developed by the Board using data provided by Funding Circle to estimate the impairment on loans. The Audit Committee regularly reviews this policy and the underlying loan models and has satisfied itself as to the impairment and carrying values of loans advanced in the consolidated financial statements.

- **Fraud risk in income recognition**

  Mitigating factors were reviewed through the risk register and internal controls framework which is reviewed and approved by the Committee on a regular basis. The Committee has considered and challenged as appropriate the assessment of risks within these documents and obtained evidence about the effective operation of the internal controls in place, including critically assessing reporting provided by Funding Circle. The Audit Committee is satisfied that the accounting policy for recognition of the interest earned on loans is in line with the relevant accounting standards.

The Committee in conjunction with the Board and Funding Circle have reviewed the impact of COVID-19 on the accounts as at 31 March 2020. Underlying loan performance as at 31 March 2020 was largely unaffected by COVID-19, however the gradual phasing in of restrictive measures through the latter half of March and the consequent effect on the economy would be expected to impact future loan performance. The assumptions used for forecasting expected credit losses, as required under IFRS 9, have therefore been adjusted for this and the Company has increased the weighting to the existing pre-COVID downside economic scenario to 100% which the board considers to be a reasonable estimate of future expected losses at 31 March 2020.

Internal Control and Risk Management

The Committee along with the Risk Committee has established a process for identifying, evaluating and managing all major risks faced by the Group. The process is subject to regular review by the Board and accords with the AIC Code of Corporate Governance. The Board is responsible overall for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Committee receives reports from the Risk Committee on the Group's risk evaluation process and reviews changes to significant risks identified. The Committee has undertaken a full review of the Group's business risks, which have been analysed and recorded in a risk report, which is reviewed and updated regularly. Each quarter a Funding Circle report outlines the steps taken to monitor the areas of risk including those that are not directly the responsibility of Funding Circle and reports the details of any known internal control failures.

Separately, Funding Circle has established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by Funding Circle's compliance and risk department on an on-going basis. Funding Circle's controls processes have also been outlined to the Board. The Board's assessment of the Company's principal risks and uncertainties is set out on pages 7 to 9. By means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Group's system of internal controls for the year ended 31 March 2020 and subsequently and that no material issues have been noted.

AUDIT COMMITTEE REPORT

External Audit

The effectiveness of the external audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received a detailed audit plan from PwC, identifying their assessment of these key risks. For the year ended 31 March 2020 significant risks were identified in relation to impairment and the carrying values of loans advanced and the risk of fraud in revenue recognition (in addition to the risk of management override of controls). These risks are tracked through the year and the Committee challenged the work done by the auditor to test management's assumptions and estimates around these areas. The Committee has assessed the effectiveness of the audit process addressing these matters through the reporting received for the year-end consolidated financial statements. In addition, the Committee will seek feedback from the Administrator on the effectiveness of the audit process. For the year ended 31 March 2020, the Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good.

Appointment and Independence

The Committee considers the reappointment of PwC, including the rotation of the Audit Engagement Partner, and assesses their independence on an annual basis. The external auditor is required to rotate the Audit Engagement Partner responsible for the Company's audit every five years. The current Audit Engagement Partner has been in place since appointment for the period ended 31 March 2016 and is considered to be independent. The Audit Committee has engaged with the external auditor to ensure an effective rotation of the Audit Engagement Partner following the fifth year of appointment. In its assessment of the independence of the auditor, the Committee receives details of any relationships between the Company and PwC that may have a bearing on their independence and receives confirmation that they are independent of the Company. The Committee approved the fees for audit services for the year ended 31 March 2020 after a review of the level and nature of work to be performed and after being satisfied that the fees were appropriate for the scope of the work required.

Non Audit Services

To safeguard the objectivity and independence of the external auditors from becoming compromised, the Committee has a formal policy governing the engagement of the external auditors to provide non-audit services. No material changes have been made to this policy during the year. The auditor and the Directors have agreed that all non-audit services require the pre-approval of the Audit Committee prior to commencing any work. Fees for non-audit services are tabled annually so that the Audit Committee can consider the impact on auditor's objectivity. The auditor (and their affiliated network firms) was remunerated £284,756 (2019: £300,870) for their audit and non-audit services rendered for the year ended 31 March 2020. The Committee assessed whether PwC should be appointed in relation to certain transaction related services and concluded that it would be in the best interest of the Company to do so.

PwC were remunerated as follows for the year ended 31 March 2020:

	2020		2019	
Type of service	**PwC CI**	**PwC Ireland**	**PwC CI**	**PwC Ireland**
	£	**£**	**£**	**£**
Audit of the financial statements	109,220	104,197	134,460	108,798
Review of half yearly financial statements	22,000	—	22,000	—
Tax related services	—	34,940	—	21,601
Other non-audit services	14,399	—	14,011	—
	145,619	**139,137**	**170,471**	**130,399**

The current length of PwC's tenure is 5 years and the last time tendering took place was in October 2015.

The Committee is satisfied with the effectiveness of the audit provided by PwC, and is satisfied with the auditor's independence. The Committee has therefore recommended to the Board that PwC be reappointed as external auditor for the year ending 31 March 2021, and to authorise the Directors to determine their remuneration and terms of engagement. Accordingly, a resolution proposing the reappointment of PwC as auditor will be put to the shareholders at the 2020 AGM.

Committee Evaluation

The Committee's activities form part of the performance evaluation that will be carried out by the Board.

Jonathan Bridel
Chairman of the Audit Committee
28 July 2020

DIRECTORS' REMUNERATION REPORT

The Board has established a Remuneration and Nominations Committee which met once during the current financial year.

Composition

The Remuneration and Nominations Committee was formed on 28 September 2015, comprising all the members of the Board. The Board has appointed Richard Boléat as Chairman of the Committee.

The Directors and Company Secretary are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary at the registered office and will be available for inspection at the AGM. The Company Secretary is engaged under a Company Secretarial Agreement with the Company. The Company has no employees.

The Directors are each entitled to serve as non-executive Directors on the boards of other companies and to retain any earnings from such appointments.

Responsibilities

The primary responsibilities of the Committee are:

- determine and agree with the Board the framework or broad policy for the remuneration of the Company's Chairman and non-executive directors pursuant to the Company's Articles of Incorporation;
- review the ongoing appropriateness and relevance of the remuneration policy;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised;
- annually review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes as necessary;
- give full consideration to succession planning of directors, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and
- keep under review the leadership needs of the Company with a view to ensuring the continued ability of the Company to compete effectively in the Platform.

Remuneration Policy

In setting the Company's remuneration policy, the Remuneration and Nominations Committee has sought (so far as it considers appropriate for a company with a non-executive Board) to align the interests of the Board with those of the Company and to incentivise the Directors to help the Company to achieve its investment objective.

The Directors shall be paid such remuneration by way of fees for their services as is defined in each of the Directors' letters of appointment. Under the terms of their appointments as non-executive Directors of the Company, the Directors (other than Sachin Patel who has waived his entitlement to an annual fee) are entitled to the following annual fees:

	Annual fee **£**	**Notes**
Frederic Hervouet	40,000	**Chairman of the Risk Committee**
Jonathan Bridel	40,000	**Chairman of the Audit Committee**
Richard Boléat	50,000	**Chairman of the Board and Chairman of the Remuneration and Nominations Committee**
Richard Burwood*	50,000	**Chairman of the Management Engagement Committee**
Sachin Patel	—	**Waived annual Director's fee**
	180,000	

**The annual fee for Richard Burwood includes £5,000 director's fee for each of Tallis Lending Designated Activity Company, Basinghall Lending Designated Activity Company, Lambeth Designated Activity Company and Queenhithe Lending Designated Activity Company.*

The Directors are not entitled to any other fixed or variable remuneration.

No Director has a service contract with the Company, nor are any such contracts proposed. The retirement, disqualification and removal provisions relating to the Directors (in their capacity as Directors) are set out in their letters of appointment.

No annual bonus will be paid to any Director and the Company does not operate a long term incentive plan.

The Directors are entitled to be repaid by the Company all properly incurred out-of-pocket expenses reasonably incurred in the execution of their duties.

DIRECTORS' REMUNERATION REPORT

Remuneration Policy – (continued)

In setting the level of each non-executive Director's fees, the Company has had regard to: the time commitments expected, the level of skill and experience of each Director, the current market, the fee levels of companies of similar size and complexity.

On termination of their appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date. If the Board considers it appropriate to appoint a new director, the new director remuneration will comply with the current policy.

Directors' remuneration and Share interests

The total remuneration of the Directors for the year ended 31 March 2020 was as follows:

	31 March 2020	31 March 2019
	£	£
Frederic Hervouet	40,000	40,000
Jonathan Bridel	40,000	40,000
Richard Boléat	50,000	50,000
Richard Burwood	46,958	35,439
	176,958	**165,439**

Richard Burwood is/was also a Director of Basinghall, Tallis, Lambeth and Queenhithe until resigning as a director of Basinghall and Tallis on 13 July 2020. The total remuneration to the Directors disclosed in the above table excludes £4,240 (2019: £7,376) representing Directors' expenses charged to the Company, Basinghall, Tallis and Queenhithe. There were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during this year.

As at 31 March 2020 each of Richard Boléat, Jonathan Bridel, and Richard Burwood had a share interest in the Company, in the form of 4,448 (2019: 5,000) Ordinary shares, representing 0.0015% (2019: 0.0015%) interest in voting rights. Frederic Hervouet had a share interest in the Company in the form of 95,176 (2019: 107,000) Ordinary shares, representing 0.0327% in the voting rights as at 31 March 2020 (2019: 0.0330%).

During the year no remuneration was received by any Director in a form other than cash. Furthermore, no payments were made for loss of office, other benefits or other compensation for extra services to any Director or former Director of the Company.

The Company has no employees other than its Directors who are all non-executive. When periodically considering the level of fees, the Remuneration and Nominations Committee evaluates the contribution and responsibilities of each Director and the time spent on the Company's affairs. Following this evaluation, the Committee will determine whether the fees as set out in the Remuneration Policy continue to be appropriate. Although the Company has not to date consulted shareholders on remuneration matters, it has reviewed the remuneration of Directors of other investment companies of similar size and complexity and to the limits set out in the Company's Articles of Incorporation. The Company welcomes any views the shareholders may have on its remuneration policy.

Richard Boléat
Chairman of the Remuneration and Nominations Committee
28 July 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

The Companies (Guernsey) Law, 2008 (as amended) requires the Directors to prepare financial statements for each financial year and under that law they have elected to prepare the consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

In preparing these consolidated financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the consolidated financial statements comply with The Companies (Guernsey) Law, 2008 (as amended). They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors confirm that they have complied with the above requirements in preparing the consolidated financial statements and that to the best of their knowledge and belief:

- This annual report includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that the Group faces;
- The consolidated financial statements, prepared in accordance with IFRS adopted by the IASB and interpretations issued by the IFRS Interpretations Committee, give a true and fair view of the assets, liabilities, financial position and results of the Group; and
- The annual report and consolidated financial statements, taken as a whole, provide the information necessary to assess the Group's position and performance, business model and strategy and is fair, balanced and understandable.

Richard Boléat	**Jonathan Bridel**
Chairman	***Chairman of the Audit Committee***
28 July 2020	28 July 2020

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SME CREDIT REALISATION FUND LIMITED

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of SME Credit Realisation Fund Limited (the "Company") and its subsidiaries (together "the Group") as at 31 March 2020, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements of the Group, as required by the Crown Dependencies' Audit Rules and Guidance. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter

We draw attention to Note 20 to these consolidated financial statements, which describes the change in the basis of measurement of loans advanced from amortised cost to fair value through other comprehensive income with effect from 1 April 2020. Our opinion is not modified in respect of this matter.

Our audit approach

Context

Our audit of the Group for the year ended 31 March 2020 was planned and executed having considered the key activities of the Group during the year. Our assessment is that the primary operations of the Group remained largely unchanged from the prior year up until 31 March 2020.

At the Extraordinary General Meeting held on 11 June 2019 the shareholders of the Company voted to amend the Company's investment objective and policy to implement a managed wind-down of the Company by means of natural amortisation of the Company's investments in credit assets as well as potential opportunistic portfolio sales. This did not have a significant impact on the consolidated financial statements for the year ended 31 March 2019 and the Group is still considered to be a going concern for the year ended 31 March 2020.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SME CREDIT REALISATION FUND LIMITED

Overview

Materiality

- Overall Group materiality was £5.2 million (2019: £6.9 million) which represents 2.25% of consolidated net assets (2019: 2.25% of consolidated net assets).

Audit scope

- The Company is based in Guernsey, with subsidiaries located in Ireland, and engages Funding Circle Ltd (the "Portfolio Administrator") to administer its loan portfolio. The consolidated financial statements are a consolidation of the Company and all of its subsidiaries.
- We conducted our audit of the consolidated financial statements using information provided by Sanne Group (Guernsey) Limited (the "Administrator"), to whom the board of directors has delegated the provision of certain functions. We also had significant interaction with the Portfolio Administrator in completing aspects of our overall audit work.
- We conducted our audit work in Guernsey and we tailored the scope of our audit, taking into account the types of investments within the Group, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

- Impairment and carrying value of loans advanced.
- Management's consideration of the impact of COVID-19.

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Company is based in Guernsey with four underlying subsidiaries located in Ireland. The consolidated financial statements are a consolidation of the Company and all underlying subsidiaries.

Scoping was performed at the Group level, irrespective of whether the underlying transactions took place within the Company or within the subsidiaries. The Group audit was led, directed and controlled by PricewaterhouseCoopers CI LLP and all audit work for material items within the consolidated financial statements was performed in Guernsey by PricewaterhouseCoopers CI LLP. All subsidiaries and the parent that make up the Group were in scope for our audit procedures over the consolidated financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall group materiality	£5.2 million (2019: £6.9 million)
How we determined it	2.25% of consolidated net assets (2019: 2.25% of consolidated net assets)
Rationale for the materiality benchmark	We believe that consolidated net assets is the most appropriate benchmark because this is the key metric of interest to investors. It is also a generally accepted measure used for companies in this industry.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £258,000 (2019: £346,000), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	***How our audit addressed the Key audit matter***
Impairment and carrying value of loans advanced Refer to pages 35 to 36 (Note 2 to the consolidated financial statements), pages 37 to 40 (Note 3 to the consolidated financial statements), pages 41 to 42 (Note 4 to the consolidated financial statements) and pages 19 to 21 (Audit Committee Report). Loans advanced are recorded at amortised cost in the Consolidated Statement of Financial Position and amounted to £200m as at 31 March 2020. The amount is net of provisions for impairment and allowance for expected credit losses in accordance with IFRS 9 of £59m (shown in Note 4 to the consolidated financial statements). The impairment assessment requires estimates and significant judgements to be applied by the directors, particularly in respect of expected credit loss allowances for IFRS 9, such that changes in key inputs to the estimates and/or judgements made can result in a material change to the carrying value.	We understood and assessed the methodology and assumptions applied by the Group in determining the amortised cost of loans advanced less provisions for impairment, by reference to accounting standards and industry practice. We understood and evaluated the internal controls relating to the reconciliation, accounting and reporting of loans advanced. We understood and evaluated the valuation methodology and assumptions applied, by reference to IFRS 9 and industry practice, and tested the techniques used, in determining the amortised cost and the recognition of any expected credit losses. Our testing included: • detailed testing over the loan models used by management to value the loans at amortised cost using the effective interest rate method; • validating the inputs in the loan models, including interest rates and loan maturities, and agreeing to the legal loan documentation on a sample basis; • reviewing the methodology used to determine the expected credit losses against the requirements of IFRS 9; • assessing the key assumptions used, such as those relating to when a significant increase in credit risk has occurred; • assessing the key parameters and assumptions within the expected credit loss models, such as selection of economic scenarios, the probabilities of default, loss given default, exposure at default and macroeconomic environment adjustments; and • testing the integrity of the data used in the expected credit loss models and the completeness and accuracy of the data. We found that the recording of loans advanced at amortised cost was consistent with the accounting policies and that the assumptions used to calculate the impairment provision were supported by appropriate evidence.

Management's consideration of the impact of COVID-19

Management and the directors have considered the impact of the events that have been caused by the pandemic, COVID-19, on the current and future operations of the Group (Note 2). In doing so, management have made estimates and judgements that are critical to the outcomes of these considerations with particular focus on the Group's ability to continue as a going concern for a period of at least 12 months from the date of the consolidated financial statements.

As a result of the impact of COVID-19 on the wider financial markets we have determined management's consideration of the impact of COVID-19 (including their associated estimates and judgements) to be a key audit matter.

In assessing management's consideration of the impact of COVID-19, we have undertaken the following audit procedures:

- we obtained management's most recent financial results forecasts and liquidity analysis underlying their going concern assessment and verified the integrity of the forecasts;
- we inspected management's most recent forecasts and assessed the underlying calculations and assumed duration of the disruption having considered information from recent industry sources;
- we challenged management on the key assumptions included in the macroeconomic scenarios and we subjected management's most recent forecasts to additional stress testing to confirm that both management and the directors have considered a balanced range of outcomes in their assessment of the impact of COVID-19 on the Group;
- we also considered the likelihood and effect of potential mitigating actions available to management which have not been reflected in their assessment;
- we discussed the most recent forecasts with the Portfolio Administrator to understand management's and the directors' views on going concern and the impact of COVID-19 on the Group; and
- we considered the appropriateness of the disclosures made by management and the directors in respect to the impact of COVID-19 on the current and future operations of the Group, explaining the significant estimation uncertainty in relation to the evaluation of the recognised expected credit losses, and measurement of loans advanced at fair value subsequent to the year ended 31 March 2020.

Based on our procedures and the information available at the time of the directors' approval of the consolidated financial statements, we have not identified any matters to report with respect to both management's and the directors' consideration of the impact of COVID-19 on the current and future operations of the Group, albeit acknowledging that the situation continues to evolve.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report and Audited Consolidated Financial Statements (the "Annual Report") but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, the requirements of Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SME CREDIT REALISATION FUND LIMITED

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the consolidated financial statements. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group and the wider economy.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Use of this report

This independent auditor's report, including the opinions, has been prepared for and only for the members as a body in accordance with Section 262 of The Companies (Guernsey) Law, 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SME CREDIT REALISATION FUND LIMITED

Report on other legal and regulatory requirements

Company Law exception reporting

Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Listing Rules of the Financial Conduct Authority (FCA)

The Company has reported compliance against the 2019 AIC Code of Corporate Governance (the "Code") which has been endorsed by the UK Financial Reporting Council as being consistent with the UK Corporate Governance Code for the purposes of meeting the Company's obligations, as an investment company, under the Listing Rules of the FCA.

We have nothing material to add or draw attention to in respect of the following matters which we have reviewed based on the requirements of the Listing Rules of the FCA:

- The directors' confirmation that they have carried out a robust assessment of the principal and emerging risks facing the Group, including a description of the principal risks, what procedures are in place to identify emerging risks, and an explanation of how those risks are being managed or mitigated.
- The directors' explanation as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal and emerging risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and its environment obtained in the course of the audit.

Additionally, we have nothing to report in respect of our responsibility to report when:

- The directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.
- The statement given by the directors that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group obtained in the course of performing our audit.
- The section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Nicholas Vermeulen

Nicholas John Vermeulen
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants and Recognised Auditor
Guernsey, Channel Islands
28 July 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £	2019 £
Operating income			
Interest income on loans advanced	4	28,861,837	37,335,418
Net realised and unrealised gain on foreign exchange	17	925,960	—
Bank interest income		91,170	61,834
Total operating income		**29,878,967**	**37,397,252**
Operating expenditure			
Net loss on the change in fair value of financial asset at fair value through profit or loss	5	6,195,281	3,498,426
Net realised and unrealised loss on foreign exchange	17	—	1,027,173
Impairment of loans	4	22,454,031	24,847,832
Loan servicing fees	16	2,517,245	3,451,137
Company administration and secretarial fees	16	417,930	448,888
Directors' remuneration and expenses	15	181,198	172,815
Audit, audit-related and non-audit related fees	16	284,756	300,870
Corporate broker services		40,000	137,800
Corporate services fees	16	284,691	323,643
Regulatory fees		191,498	94,557
Advisory services fees		(10,120)	739,041
Loan interest payable	10	1,030,887	1,599,456
Legal and professional fees		505,199	696,053
Commitment fee	10	837,500	175,000
Other operating expenses		194,164	478,884
Total operating expenditure		**35,124,260**	**37,991,575**
Operating loss for the year before taxation		(5,245,293)	(594,323)
Taxation expense	12	(1,000)	(500)
Total comprehensive loss for the year		**(5,246,293)**	**(594,823)**
Earnings per share			
Basic and diluted	13	**(1.80p)**	**(0.18p)**

		Number of shares	Number of shares
Weighted average number of shares outstanding			
Basic and diluted	13	291,019,214	330,497,235

Other comprehensive income

There were no items of other comprehensive income in the current year or the prior year.

The Notes on pages 35 to 57 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	Notes	31 March 2020 £	31 March 2019 £
ASSETS			
Cash and cash equivalents	7	46,602,238	29,408,480
Other receivables and prepayments		48,533	590,648
Asset fair value of currency derivatives	8	—	992,114
Financial asset at fair value through profit or loss	5	—	12,349,178
Loans advanced	4	200,094,130	340,222,868
TOTAL ASSETS		**246,744,901**	**383,563,288**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	263,017,723	320,944,247
Retained deficit		(33,007,021)	(12,596,119)
TOTAL SHAREHOLDERS' EQUITY		**230,010,702**	**308,348,128**
LIABILITIES			
Liability fair value of currency derivatives	8	3,400,699	—
Loans payable	10	11,531,076	73,651,620
Accrued expenses and other liabilities	9	1,802,424	1,563,540
TOTAL LIABILITIES		**16,734,199**	**75,215,160**
TOTAL EQUITY AND LIABILITIES		**246,744,901**	**383,563,288**
NAV per share outstanding		**89.05p**	**95.45p**

The consolidated financial statements on pages 31 to 57 were approved and authorised for issue by the Board of Directors on 28 July 2020 and were signed on its behalf by:

Richard Boléat
Chairman

Jonathan Bridel
Chairman of the Audit Committee

The Notes on pages 35 to 57 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	Share capital £	Retained deficit £	Total £
Balance at 1 April 2019		320,944,247	(12,596,119)	308,348,128
Redemption of ordinary shares	11	(30,499,833)	—	(30,499,833)
Share buybacks	11	(27,426,691)	—	(27,426,691)
Dividends declared	14	—	(15,164,609)	(15,164,609)
Total comprehensive loss for the year		—	(5,246,293)	(5,246,293)
Balance at 31 March 2020		**263,017,723**	**(33,007,021)**	**230,010,702**

Balance at 1 April 2018		303,795,869	2,181,704	305,977,573
Issue of Shares	11	25,476,817	—	25,476,817
Share issue costs	11	(324,829)	—	(324,829)
Scrip dividends issued	11	1,667,415	—	1,667,415
Share buybacks	11	(9,671,025)	—	(9,671,025)
Dividends declared	14	—	(14,183,000)	(14,183,000)
Total comprehensive loss for the year		—	(594,823)	(594,823)
Balance at 31 March 2019		**320,944,247**	**(12,596,119)**	**308,348,128**

The Notes on pages 35 to 57 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2020 £	2019 £
Operating activities			
Total comprehensive loss for the year		(5,246,293)	(594,823)
Adjustments for:			
Tax expense		1,000	500
Foreign exchange gain	17	(5,388,447)	(7,890,252)
Interest income on loans advanced	4	(28,861,837)	(37,335,418)
Net loss on the change in fair value of financial asset at fair value through profit or loss	5, 17	6,195,281	3,498,426
Impairment of loans	4	22,454,031	24,847,832
Fair value movement of currency derivatives	17	4,392,813	335,290
Operating cash flows before movements in working capital		**(6,453,452)**	**(17,138,445)**
Loans advanced		(9,147,121)	(208,385,335)
Principal and interest collections on loans advanced	4	160,603,434	187,074,243
Principal and interest collections on financial asset at fair value through profit or loss	5	6,153,897	12,308,089
Decrease/(Increase) in other receivables and prepayments		542,115	(369,933)
Increase in accrued expenses and other liabilities		546,372	508,713
Net cash generated from / (used in) operating activities		**152,245,245**	**(26,002,668)**
Financing activities			
Proceeds from issue of Shares	11	—	25,151,988
Loans issued		2,636,619	33,741,424
Loans repayments received	10	(64,757,163)	(10,089,804)
Dividends paid	14	(15,164,609)	(17,516,449)
Repurchase of shares	11	(27,426,691)	(9,671,025)
Redemption of shares	11	(30,499,833)	—
Net cash (used in) / generated from financing activities		**(135,211,677)**	**21,616,134**
Net increase/(decrease) in cash and cash equivalents		17,033,568	(4,386,534)
Cash and cash equivalents at the beginning of the year		29,408,480	33,381,211
Foreign exchange gain on cash and cash equivalents		160,190	413,803
Cash and cash equivalents at the end of the year		**46,602,238**	**29,408,480**

The Notes on pages 35 to 57 form part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company is a closed-ended limited liability company registered under The Companies (Guernsey) Law, 2008 (as amended) with registered number 60680. The Company is a registered collective investment scheme in Guernsey and admitted to trading on the London Stock Exchange's Main Market and listed on the UKLA's premium segment. The Company's home member state for the purposes of the EU Transparency Directive is the United Kingdom. As such, the Company is subject to regulation and supervision by the Financial Conduct Authority, being the financial markets supervisor in the United Kingdom. The registered office of the Company is De Catapan House, Grange Road, St Peter Port, Guernsey GY1 2QG.

The Company was established to provide shareholders with sustainable and attractive levels of dividend income, primarily by way of investment in loans originated both directly through the Platforms operated by Funding Circle and indirectly, in each case as detailed in the investment policy. The Company identified Funding Circle as a leader in the growing Platform lending space with its established infrastructure, scale of origination volumes and expertise in accurately assessing loan applications.

On 21 May 2019, the Company published a circular and notice of extraordinary general meeting ("EGM") which sets out details of, and sought shareholder approval for, certain Proposals. The Proposals involved modifying the Company's Investment Objective and Policy to reflect a realisation strategy and amending its Articles to include a mechanism to enable the Company to redeem shares in the Company compulsorily so as to return cash to shareholders.

On 11 June 2019, the Proposals were approved at the EGM as discussed in detail in the Strategic Report on page 5.

The Company publishes net asset value statements on its website at www.smecreditrealisation.com.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements, which give a true and fair view, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are in compliance with The Companies (Guernsey) Law, 2008 (as amended).

The Directors of the Company have adopted the exemption in Section 244 of The Companies (Guernsey) Law 2008 (as amended) and have therefore elected to only prepare consolidated financial statements for the year.

Assets and liabilities of the Group have been presented in the Statement of Financial Position in their order of liquidity as permitted by International Accounting Standard 1, Presentation of Financial Statements.

On 5 April 2019, the Company announced that following consultation with shareholders accounting for over two thirds of the register, the Board acknowledged their preference to cease investment in new Credit Assets and commence a process to return capital in an orderly and expeditious manner with the objective of optimising returns to shareholders.

As noted above, the Company published a circular and notice of EGM which sets out details of, and sought shareholder approval for, certain Proposals. On 11 June 2019, the shareholders approved the Proposals which resulted in, amongst other things, the change to the Company's Investment Policy and Objective to achieve a managed wind-down of the Company.

Whilst the managed wind-down of the Company was approved at the EGM, there is no definite and final plan in relation to the timing of the liquidation of the Company's assets and the process of returning capital to shareholders. The Company will continue to be considered a going concern. However, this may be required to change through the course of the managed wind-down as the natural amortisation of the Company's investments in Credit Assets takes place and potentially opportunistic portfolio sales are pursued.

During the financial year, the Company ran an auction process as the Board explored a potential sale of a portion of the Company's assets during which it received a high level of interest from potential buyers. As announced in April 2020, it is still the Company's intention to effect a sale of a portion of its assets and the Company continues to engage with potential buyers. However, given the recent market volatility and uncertainty caused by COVID-19, it is likely the asset sales shall be delayed, or may not proceed at all.

As a result of the Company's managed wind-down, for the purposes of accounting, the Company's business model was deemed to have changed from hold to collect to hold to collect and sell during the financial year. The Company is therefore required to report under fair value accounting for the valuation of Credit Assets from 1 April 2020. This change in methodology is discussed further in note 17.

<u>New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") adopted in the current year</u>

In the Directors' opinion, all non-mandatory New Accounting Requirements are either not yet permitted to be adopted, or would have no material effect on the reported performance, financial position or disclosures of the Group and consequently have neither been adopted nor listed.

b) Basis of measurement and consolidation

These consolidated financial statements have been prepared on a historical cost basis, as modified by the valuation of derivative financial instruments and the Company's investment in the EIB transaction at fair value. The methods used to measure fair value are further disclosed in note 17.

2. BASIS OF PREPARATION – (CONTINUED)

b) Basis of measurement and consolidation – (continued)

The Company owns 100% of the Profit Participating Notes issued by Basinghall and Tallis. Basinghall owns all the Profit Participating Notes issued by Queenhithe and Lambeth. Basinghall, Tallis, Queenhithe and Lambeth are all companies incorporated in the Republic of Ireland.

Basinghall retains substantially all of the risks and rewards of the underlying portfolio of the loans transferred to Lambeth. The Directors believe that the Company's ownership of the Profit Participating Notes issued by Basinghall and Tallis, Basinghall's ownership of the Profit Participating Notes issued by Queenhithe and the substantial retention of the risks and rewards on the underlying loan portfolio held by Lambeth constitute control as it exposes the Company to variability of returns from its involvement with the financial and operating activities of these entities. Therefore, these financial statements have been prepared on a consolidated basis.

Intercompany transactions including intercompany gains and losses on currency translation between the Company and its subsidiaries were eliminated in the consolidation process.

c) Functional and presentation currency

These consolidated financial statements are presented in Pound Sterling, which is the functional currency of each of the entities in the Group and the presentation currency of the Group. In the Directors' opinion, the Pound Sterling is the functional currency of the Company, Basinghall, Lambeth and Queenhithe because substantially all their financing and operating activities are carried out in Pound Sterling. The Directors believe that the functional currency of Tallis is the Pound Sterling as its operations are carried out as an extension of the Company's operations. The Group hedges the projected cash flows from its US dollar and Euro investments such that its principal exposure is to Pound Sterling.

d) Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires the Board to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed at least on an annual basis except for the estimates used in the calculation of the fair value of the EIB transaction which is reviewed on a regular basis consistent to the frequency of the NAV reporting. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are included in the following:

- Note 2(b) – The assumption that the Company's business model of holding credit assets to collect is no longer deemed appropriate as at year end. As a result of the Company's managed wind-down, the Company's business model was deemed to have changed from hold to collect to hold to collect and sell during the financial year. The Company is therefore required to report under fair value accounting for the valuation of Credit Assets from 1 April 2020. As of 31 March 2020 therefore, these portfolios are recognised at amortised cost.
- Note 2(b) – The accounting treatment of Lambeth as a consolidated subsidiary based on the assessment that the retention of substantially all of the risks and rewards on the underlying portfolio of loans sold by Basinghall to Lambeth is deemed to constitute control as it exposes the Group to variability of returns from its involvement with the financial and operating activities of Lambeth.
- Note 2(c) – One of the subsidiaries has its primary assets and liabilities denominated in Euro. The Directors assessed whether the functional currency is the Euro or Pound Sterling. The subsidiary's operations are considered to be an extension of the operations of the Company and therefore the Directors believe that the appropriate functional currency for the subsidiary is Pound Sterling, the functional currency of the Company.
- Note 3(b) – The estimation of impairment of loans require judgement based on the model set out above.
- Note 3(k) – The Directors assessed whether the Group had a single operating segment based on its original business model (origination of loans) or several operating segments based on the jurisdictions where loans were originated. After consideration of the financial information that the Board regularly reviews in making economic decisions, the Board concluded that operating segments based on jurisdiction is a more appropriate basis.
- Note 17 – The determination of fair value of the Group's investment in the EIB transaction requires estimation of future cash flows and judgement on the appropriate market discount rate to apply. The fair value of the EIB transaction has been estimated by discounting future cash flows expected from the investment (note 17).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently throughout the year and the prior year.

a) Foreign currencies

Transactions in foreign currencies are initially translated at the foreign currency exchange rate ruling at the date of the transaction. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated to Pound Sterling at the foreign currency closing exchange rate ruling at the reporting date.

None of the Group entities have a functional currency different to presentation currency.

b) Financial instruments

i) Classification and measurement

IFRS 9 requires financial assets to be classified into the following measurement categories: (i) those measured at fair value through profit or loss; (ii) those measured at fair value through other comprehensive income; and, (iii) those measured at amortised cost. The determination is made at initial recognition. Unless the option to designate a financial asset as measured at fair value through profit or loss is applicable, the classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

The Group classifies its financial instruments in the following measurement categories:

- fair value through profit or loss; or
- amortised cost.

The Group holds debt instruments and derivative financial instruments. Debt instruments are those that meet the definition of a financial liability from the issuer's perspective, such as the Group's loans advanced, investment in the EIB structured finance transaction and loans payable. Classification and subsequent measurement of these debt instruments depend on:

- the Group's business model for managing the instrument; and
- cash flow characteristics of the instrument.

Derivative financial instruments relate to the Group's forward foreign exchange transactions that are covered in more detail later in this note.

Amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at fair value through profit or loss, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance measured as described below. Interest income from these financial assets is included in the 'interest income on loans advanced'.

The Group's cash and cash equivalents and loans advanced are included in this category.

Fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

The Group does not currently have any financial asset that falls within this category.

However, due to the change in the Company's business model in the financial year to hold to collect and sell, the Company is required to measure its loans advanced at fair value through other comprehensive income from 1st April 2020 onwards. The Company has appointed an external third party to perform the valuation of the portfolios and these fair values are disclosed in note 17 as at the current year end.

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss within 'net income on financial asset at fair value through profit or loss'. Interest income from these financial assets is included within the same line using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Fair value through profit or loss – (continued)

The Group's investment in the EIB structured finance transaction falls within this category and has been measured at fair value through profit or loss as this investment has exposure to returns that is affected by the profitability of the underlying SPV. The Directors believe that the contractual cash flows are not solely linked to payments of principal and interest consistent with a basic lending arrangement.

ii) Loans advanced

Loans advanced are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans advanced are recognised when the funds are advanced to borrowers or when the agreements with the borrowers have been completed.

Loans advanced are measured at amortised cost using the effective interest method, less any impairment. The effective interest method calculates the amortised cost by allocating all relevant cash flows over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the loans to the net carrying amount on initial recognition.

iii) Impairment of financial assets

At initial recognition, an impairment allowance is required for expected credit losses ("ECL") resulting from possible default events within the next 12 months. When an event occurs that increases the credit risk of the counterparty, an allowance is required for ECL for possible defaults over the term of the financial instrument. The change in credit risk of the counterparty will also have an impact to the recognition of income on the financial asset.

The model for estimating impairment losses calculates the ECL on either a 12-month or lifetime basis depending on whether significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired.

These metrics used to calculate the 12-month and lifetime expected credit losses are forecast for each loan for the next 12 months and to maturity, then a 12-month and lifetime expected credit loss can be calculated. These future losses are discounted at the Effective Interest Rate (EIR) individually for each loan.

Credit risk is not monitored on individual loans post origination, instead the collective performance of loans against expectations at origination on a vintage level is monitored. As a result, lifetime expected credit losses are taken as a portion of each cohort anticipated to be in stage 2 and a weighted average ECL is calculated. Lifetime expected credit losses are also taken as an impairment for loans delinquent by more than 30 days.

The Group classifies loans that are 91 or more days late as credit impaired or defaulted for which lifetime expected loss is taken as an impairment charge. The treatment of defaulted loans is the same as the Group's policy before adoption of IFRS 9 on 1 April 2018.

If, in a subsequent period, the amount of the default allowance decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised default allowance is recognised in the Consolidated Statement of Comprehensive Income.

Where a loan is not recoverable, it is written off within the related provision for loan impairment. Subsequent recoveries of amounts previously written off are reflected against the impairment losses recorded in the Consolidated Statement of Comprehensive Income.

Use of forward-looking information

Forecast Probability of Default ("PD") for loans are adjusted to take in to account the current and future macroeconomic environment based on a modelled relationship with key macroeconomic variables. This is forecast for a base case scenario and for multiple alternative scenarios.

iv) Financial asset at fair value through profit or loss

The Group's investment in the EIB structured finance transaction has been classified as a financial asset at fair value through profit or loss. This investment has exposure to returns that is affected by the profitability of the underlying SPV. This investment is measured initially and subsequently at fair value with changes in fair value recognised in the Consolidated Statement of Comprehensive Income.

v) Derivative financial instruments

The Group holds derivative financial instruments to minimise its exposure to foreign exchange risks. Derivatives are classified as financial assets or financial liabilities (as applicable) at fair value through profit or loss. They are initially recognised at fair value with attributable transaction costs recognised in the Consolidated Statement of Comprehensive Income when incurred. Subsequent to

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

b) Financial instruments – (continued)

v) Derivative financial instruments – (continued)

initial recognition, derivatives are measured at fair value and changes therein are recognised in the Consolidated Statement of Comprehensive Income. The fair values of derivative transactions are measured at their market prices at the reporting date.

vi) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported within assets and liabilities where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

vii) Derecognition of financial instruments

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

There may be instances when the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset initially at fair value and recalculates a new effective interest rate for the asset.

Financial liabilities and derivative financial instruments are derecognised when they are extinguished or when the obligation specified in the contract is discharged, cancelled or expired.

viii) Financial liabilities

In both the current and prior year, the Group's loans payable are classified as subsequently measured at amortised cost. The Group does not hold any financial liabilities that meet the criteria for subsequent measurement at fair value through profit or loss.

c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with original maturities of three months or less.

d) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary shares are recognised as a deduction from the proceeds.

Shares issued under the scrip dividend scheme are recognised at the reference price. The calculation of the reference price is disclosed in more detail in note 14.

Shares purchased by the Company during the year are held in Treasury until cancelled and formally withdrawn on a quarterly basis throughout the year.

e) Treasury shares

Treasury shares are classified as equity.

f) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its Ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year. The diluted EPS is calculated by adjusting the profit or loss attributable to Ordinary shareholders for the effects of all dilutive potential Ordinary shares. For further details, see note 13.

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

g) Income

Income on loans held at amortised cost is recognised under the effective interest rate method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the loan to its net carrying amount on initial recognition.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the effective interest rate and all premiums or discounts above or below market rates.

Bank interest and other income receivable are accounted for on an accruals basis.

h) Expenses and fees

Expenses are accounted for on an accruals basis and are recognised in the Consolidated Statement of Comprehensive Income.

i) Taxation

The Company is classified as exempt for taxation purposes under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 (as amended) and as such incurs a flat fee (presently £1,200 per annum). No other taxes are incurred in Guernsey.

Basinghall, Tallis, Lambeth and Queenhithe are Irish resident companies that are subject to corporation tax in Ireland at a rate of 25% on their profits.

The tax currently payable by Basinghall, Tallis, Lambeth and Queenhithe is based on the taxable profit of the companies for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

j) Dividends payable

Dividends payable on the Company's shares are recognised in the Consolidated Statement of Changes in Shareholders' Equity when declared by the Directors or, where applicable, when approved by the Shareholders. The Directors consider declaration of a dividend on a quarterly basis, having regard to various considerations, including the financial position of the Company. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by The Companies (Guernsey) Law, 2008 (as amended).

k) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. The Group has three operating segments based on jurisdiction: UK, US and CE.

4. LOANS ADVANCED

	31 March 2020	31 March 2019
	£	£
Balance at the beginning of the year	340,222,868	330,607,047
Opening balance of loans advanced reclassified to financial asset at fair value through profit or loss	—	(27,178,954)
Increased impairment allowance in prior year adjusted to the opening balance of retained earnings	—	(3,319,601)
Adjusted balance at the beginning of the year	340,222,868	300,108,492
Advanced	8,838,632	207,224,584
Interest income	28,861,837	37,335,418
Principal and interest collections	(160,603,434)	(187,074,243)
Impairment allowance for the year	(22,454,031)	(24,847,832)
Foreign exchange gains	5,228,258	7,476,449
Balance at the end of the year	**200,094,130**	**340,222,868**

The Group predominantly made unsecured loans in previous periods and prior to the modification of the Company's investment policy during the year. As at 31 March 2020, the carrying value of loans secured by charges over properties is £647,606 (31 March 2019: £2,254,567).

Each loan has a contractual payment date for principal and interest. The Group considers a loan as past due when the borrower's repayment has not been received for at least 30 days from the scheduled payment date. A loan is classified as defaulted when the borrower's repayment is late by 91 or more days.

The following table shows the movement in impairment allowance during the year.

	31 March 2020	31 March 2019
	£	£
Impairment allowance at beginning of the year – previously reported	36,565,877	8,398,444
Effect of adoption of IFRS 9 at the beginning of the year	—	3,319,601
Adjusted impairment allowance at beginning of the year – IFRS 9	36,565,877	11,718,045
Impairment allowance for the year – measured based on previous accounting policies	—	21,568,482
Impairment allowance for the year – additional allowance based on IFRS 9 model	22,454,031	3,279,350
Impairment allowance at the end of the year	**59,019,908**	**36,565,877**

As a result of the COVID-19 global pandemic, expected credit loss assumptions were revised as of 31 March 2020 to allocate full weighting to the pre COVID-19 downside scenario. This change in assumptions caused an increase in impairment losses of £5,143,535 as of 31 March 2020.

4. LOANS ADVANCED – (CONTINUED)

The table below shows an analysis of the principal and interest of the loans along with the amount recognised as an impairment allowance analysed by the stages described within IFRS 9:

	31 March 2020	
	Principal and interest	**Impairment allowance**
Stage 1 – no change in credit risk from inception	184,087,094	7,570,445
Stage 2 – significant increase in credit risk but not yet defaulted	19,635,038	4,828,723
Stage 3 – defaulted	55,391,906	46,620,740
	259,114,038	**59,019,908**

The table below shows an analysis of the principal and interest of the loans along with the amount recognised as an impairment allowance as at 31 March 2019:

	31 March 2019	
	Principal and interest	**Impairment allowance**
Stage 1 – no change in credit risk from inception	329,333,471	6,781,070
Stage 2 – significant increase in credit risk but not yet defaulted	15,304,021	4,460,631
Stage 3 – defaulted	32,141,603	25,324,176
	376,779,095	**36,565,877**

Structured Finance Transactions

In June 2016, the Company entered into a structured finance transaction with the European Investment Bank (the “EIB transaction”). The transaction involved the Company participating in the financing of an Irish domiciled special purpose vehicle (“EIB SPV”). The Company invested £25 million into the junior Class B Note issued by the EIB SPV whilst the European Investment Bank (“EIB”) committed £100 million in a senior loan to the EIB SPV.

In August 2018, the Group entered into a transaction to provide lending to a special purpose vehicle, Queenhithe, which makes loans to UK small businesses. The Group, through Basinghall, provided an initial funding of approximately £9.2 million through subscription into the Class B note issued by Queenhithe. Queenhithe has been accounted for in these consolidated financial statements as a subsidiary consolidated into the results of the Group.

In November 2018, the transaction was updated whereby the Department for Business, Energy and Industrial Strategy (“BEIS”) – the British Business Bank’s (“BBB”) sole shareholder – agreed to provide up to £150 million of funding via a senior floating rate, loan to Queenhithe.

Following the result of the EGM on 11 June 2019, the Group has ceased any further investment through Queenhithe.

The transactions entered into by the Group in respect of the structured financing arrangements for Lambeth are discussed in note 10 on page 45.

5. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 March 2020	31 March 2019
	£	£
Balance at the beginning of the year	12,349,178	—
Opening balance of loans advanced reclassified to financial asset at fair value through profit or loss	—	27,178,954
Fair value movement adjusted to the opening balance of retained earnings	—	976,739
Adjusted balance at the beginning of the year	12,349,178	28,155,693
Principal and interest collections	(6,153,897)	(12,308,089)
Net loss on the change in fair value of financial asset at fair value through profit or loss during the year	(6,195,281)	(3,498,426)
Balance at the end of the year	—	**12,349,178**

The Group's financial asset at fair value through profit or loss relates to the investment in the EIB transaction.

In October 2019, one of the financial covenants in respect of the EIB transaction was breached resulting in a switch from principal proceeds being distributed pari passu between the EIB and the Company to being fully allocated to the EIB until such time as the loan with the EIB has been fully repaid or the breach is no longer continuing.

It has been estimated that the Company will not receive any future cashflows from its investment into the EIB transaction causing the net loss on change in fair value during the year of £6.19m and a fair value of £nil as at 31 March 2020. This estimation remains the same as at 30 June 2020.

The calculation of the fair value is discussed in note 17.

6. SEGMENTAL REPORTING

The Group operates in the UK, US, Germany, Spain and the Netherlands. For financial reporting purposes, Germany, Spain and the Netherlands combine to make up the Continental Europe operating segment.

The measurement basis used for evaluating the performance of each segment is consistent with the policies used for the Group as a whole. Assets, liabilities, profits and losses for each reportable segment are recognised and measured using the same accounting policies as the Group.

Except for the EIB transaction, all of the Group's investments are loans to SMEs. Each individual SME loan does not generate income that exceeds 10% of the Group's total income.

The structured finance transaction and the corresponding income have been reported under the 'UK' segment below. All items of income and expenses not directly attributable to specific reportable segments have been included in 'Other income and expenses' column.

Segment performance for the year ended 31 March 2020

	UK	US	CE	Other income and expenses	Consolidated
	£	£	£	£	£
Total revenue	16,411,164	7,229,629	6,147,006	91,170	29,878,969
Impairment of loans	(11,356,416)	(6,297,293)	(4,800,322)	—	(22,454,031)
Net loss on the change in fair value of financial asset at fair value through profit or loss	(6,195,281)	—	—	—	(6,195,281)
(Loss)/profit before taxation	(5,746,782)	10,612	399,707	91,169	(5,245,293)

	UK	US	CE	Other assets and liabilities	Consolidated
	£	£	£	£	£
Assets	167,316,544	39,452,582	39,927,242	48,533	246,744,901
Liabilities	(13,077,759)	(1,885,154)	(1,771,286)	—	(16,734,199)

6. SEGMENTAL REPORTING – (CONTINUED)

Segment performance for the year ended 31 March 2019

	UK	US	CE	Other income and expenses	Consolidated
	£	£	£	£	£
Total revenue	19,838,142	12,988,715	4,446,727	61,834	37,335,418
Impairment of loans	(13,111,000)	(9,745,909)	(1,990,923)	—	(24,847,832)
Net loss on the change in fair value of financial asset at fair value through profit or loss	(3,498,426)	—	—	—	(3,498,426)
(Loss)/profit before taxation	(3,778,134)	2,161,527	2,049,455	(1,027,171)	(594,323)

	UK	US	CE	Other assets and liabilities	Consolidated
	£	£	£	£	£
Assets	246,709,422	73,110,354	62,604,976	1,138,536	383,563,288
Liabilities	(73,868,672)	(70,617)	(398,807)	(877,064)	(75,215,160)

7. CASH AND CASH EQUIVALENTS

	31 March 2020	31 March 2019
	£	£
Cash at bank	17,233,099	13,898,740
Cash equivalents	29,369,139	15,509,740
Balance at the end of the year	**46,602,238**	**29,408,480**

Cash equivalents are term deposits held with different banks with maturities between overnight and 90 days.

8. DERIVATIVES

Foreign exchange swaps are held to hedge the currency exposure generated by US dollar assets and Euro assets held by the Group (see note 17). The hedges have been put in place taking into account the fact that derivative positions, such as simple foreign exchange swaps, could cause the Group to require cash to fund margin calls on those positions. The Group negotiated the terms of the contracts with each counterparty such that no collateral is required on the initial transaction and in instances of temporary negative fair value positions.

Fair value of currency derivatives

	Fair value 31 March 2020	Fair value 31 March 2019
	£	£
Valuation of currency derivatives	(3,400,699)	992,114
	(3,400,699)	**992,114**

	Fair value 31 March 2020	Fair value 31 March 2019
	£	£
Euro	47,402	1,016,261
USD	127,088	(24,147)
GBP	(3,575,189)	—
Total	**(3,400,699)**	**992,114**

9. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 March 2020	31 March 2019
	£	£
Payable for loans committed but not yet funded	—	308,489
Service fees payable	158,864	377,987
Share buybacks payable	—	356,605
Audit fees payable	254,745	286,577
Legal fees payable	19,166	23,769
Administration fees payable	—	7,253
Loan interest payable (see note 4)	8,124	96,220
Taxation payable	1,000	500
Other liabilities	201,843	106,140
Provision for amount payable to the EIB SPV	1,158,682	—
	1,802,424	**1,563,540**

The amount payable for loans committed but not yet funded represents funds not released to borrowers but for which fully executed loan agreements are in place. The Group has acquired the rights to principal and interest repayments for these loans and these are therefore included in the loans advanced with a corresponding liability recognised for funds to be released to the borrowers.

10. LOANS PAYABLE

	31 March 2020	31 March 2019
	£	£
Balance at the beginning of the year	73,651,620	50,000,000
Drawdown	2,636,619	33,741,424
Repayment	(64,757,163)	(10,089,804)
Balance at the end of the year	**11,531,076**	**73,651,620**

In January 2018, the Group entered into the Citibank transaction to provide lending to a special purpose vehicle, Lambeth, which makes loans to UK small businesses. Under the terms of the Senior Facility Agreement, Citibank provided £50 million into the transaction, by entering into a senior floating rate loan.

In July 2018, the Citibank transaction was amended whereby the senior loan from Citibank was increased to £66 million with a corresponding net increase to the Group's lending to Lambeth. As a result, Basinghall has increased its investments into Lambeth to keep the proportional exposure between Citibank and Basinghall. The additional investment by Basinghall to Lambeth was settled by transferring a portfolio of loans during the year.

The loan from Citibank was fully repaid by Lambeth on 11 April 2020. Total interest expense on this loan during the year was £696,276 (2019: £1,517,953).

In August 2018, the Group entered into a transaction to provide lending to Queenhithe. The Group provided initial funding of approximately £9.2 million through subscription into the Class B note issued by Queenhithe. In November 2018, the transaction was updated whereby the Department for Business, Energy and Industrial Strategy ("BEIS") – the British Business Bank's ("BBB") sole shareholder – agreed to provide up to £150 million of funding via a senior floating rate loan to Queenhithe. The facility came with a 12-year legal maturity. As at 31 March 2020, Queenhithe has drawn £20,378,043 (2019: £17,741,424) from the facility.

Pursuant to the original loan agreement with BBB and the relevant agreement supplement signed in November 2018, the total commitment fee incurred for the year was £837,500 (2019: £175,000) with £93,750 (2019: £43,750) outstanding as at 31 March 2020.

The loan from BBB bears a floating interest rate plus a margin. Total interest expense on this loan during the year was £334,611 (March 2019: £81,503) with £6,964 (2019: £17,238) outstanding as at 31 March 2020.

11. SHARE CAPITAL

Issued and fully paid Ordinary shares	Number of shares	Shares issued amount £	Issue costs £	Net Shares amount £
At 1 April 2019	323,044,293	326,689,147	(5,744,900)	320,944,247
Share repurchases	(32,497,167)	(27,426,691)	—	(27,426,691)
Shares redeemed	(32,245,772)	(30,499,833)	—	(30,499,833)
At 31 March 2020	**258,301,354**	**268,762,623**	**(5,744,900)**	**263,017,723**

Issued and fully paid Ordinary shares	Number of shares	Shares issued amount £	Issue costs £	Net Shares amount £
At 1 April 2018	307,745,501	309,215,940	(5,420,071)	303,795,869
Issue of Shares - treasury	24,928,394	25,476,817	(324,829)	25,151,988
Issue of shares – scrip dividends	1,609,898	1,667,415	—	1,667,415
Share repurchases	(11,239,500)	(9,671,025)	—	(9,671,025)
At 31 March 2019	**323,044,293**	**326,689,147**	**(5,744,900)**	**320,944,247**

In May 2018, the Company's Ordinary shares held in Treasury (the "Treasury shares") were made available to meet market demand from existing and new investors. The sale price per Treasury share was 102.20p, representing a discount of 2.2% to the Ordinary share price as at close of trading on 30 April 2018 and a premium to the estimated NAV per Ordinary share of 2-3%, which included a provision for IFRS 9 adjustments.

The scrip dividend programme has been discontinued by the Company in line with the change in the Company's Investment Objective and Policy as discussed below. In the prior year, the Company issued scrip with a value of £1,667,415, involving the issuance of 1,609,898 shares.

In December 2018, the Company commenced repurchases of the Company's shares in the secondary market. As at 31 March 2020, the Company has purchased a total of 43,736,667 shares (2019: 11,239,500 shares) which have been held in treasury. During the year, a total of 43,150,424 shares held in treasury were cancelled and formally discharged.

Following the COVID-19 pandemic and the uncertainty around its impact, the directors resolved to suspend the programme of repurchases of its own shares on 2 April 2020 until further notice.

The Company redeemed a total of 32,245,772 shares for a total amount of £30,499,833 during the year.

Rights attaching to the Ordinary share class

All shareholders have the same voting rights in respect of the share capital of the Company. Every member who is present in person or by a duly authorised representative or proxy shall have one vote on a show of hands and on a poll every member present shall have one vote for each share of which he is the holder, proxy or representative. All shareholders are entitled to receive notice of the Annual General Meeting and any other General meetings.

Each Ordinary share will rank in full for all dividends and distributions declared after their issue and otherwise pari passu in all respects with each existing Ordinary share and will have the same rights (including voting and dividend rights and rights on a return of capital) and restrictions as each existing Ordinary share.

12. TAXATION

	31 March 2020 £	31 March 2019 £
Operating loss before taxation	(5,245,293)	(594,323)
Tax at the standard Guernsey income tax rate of 0%	—	—
Effects of tax rates in other jurisdictions	(1,000)	(500)
Taxation expense	**(1,000)**	**(500)**

The Group may be subject to taxation under the tax rules of the jurisdictions in which it invests. During the year, Basinghall, Tallis, Lambeth and Queenhithe which are consolidated into the Group's results were subject to a corporation tax rate of 25% in Ireland.

13. EARNINGS PER SHARE ("EPS")

The calculation of the basic and diluted EPS is based on the following information:

	31 March 2020	31 March 2019
	£	£
Profit/(Loss) for the purposes of basic and diluted EPS	(5,246,793)	(594,823)
Weighted average number of shares for the purposes of EPS:	—	—
Basic and diluted	291,019,214	330,497,235
Basic and diluted EPS	**(1.80p)**	**(0.18p)**

14. DIVIDENDS

The following table shows a summary of dividends declared during the year, and previous year, in relation to Ordinary shares and C Shares.

31 March 2020	Date declared	Ex-dividend date	Per share	Total	Number of shares issued as
			Pence	£	scrip dividend
Ordinary shares					
Interim dividend	25 April 2019	02 May 2019	1.312	4,143,549	—
Interim dividend	22 July 2019	01 August 2019	1.312	4,006,829	—
Interim dividend	21 October 2019	07 November 2019	1.3125	3,616,331	—
Interim dividend	17 January 2020	30 January 2020	1.3125	3,397,900	—
Total			**5.249**	**15,164,609**	—

31 March 2019	Date declared	Ex-dividend date	Per share	Total	Number of shares issued as
			Pence	£	scrip dividend
Ordinary shares					
Interim dividend	13 June 2018	21 June 2018	1.625	5,428,777	69,823
Interim dividend	14 September 2018	27 September 2018	1.312	4,384,014	120,417
Interim dividend	24 January 2019	31 January 2019	1.312	4,370,209	15,947
Total			**4.249**	**14,183,000**	**206,187**

In prior year, the Board offered ordinary shareholders a choice to receive dividends in cash or in shares via a scrip dividend programme. Under the programme, the number of shares issued is determined by using a Reference Share Price determined as the higher of (i) the prevailing average of the middle market quotations of the shares derived from the Daily Official List of the London Stock Exchange for the ex-dividend date and the four subsequent dealing days and (ii) the prevailing net asset value per share.

The scrip offering programme has been discontinued from 31 March 2019.

15. DIRECTORS' REMUNERATION AND EXPENSES

	31 March 2020	31 March 2019
	£	£
Directors' fees	176,958	165,439
Directors' expenses	4,240	7,376
	181,198	**172,815**

15. DIRECTORS' REMUNERATION AND EXPENSES – (CONTINUED)

None of the Directors have any personal financial interest in any of the Group's investments other than indirectly through their shareholding in the Group.

16. FEES AND EXPENSES

Loan origination and servicing

Funding Circle UK has been appointed pursuant to the UK Origination Agreement, UK Servicing Agreement and the Services Agreement. Funding Circle US (as defined in the Prospectus) has been appointed pursuant to the US Origination Agreement and the US Servicing Agreement.

Funding Circle Nederlands B.V. ("Funding Circle Netherlands") has been appointed pursuant to the Dutch Origination Agreement and the Dutch Servicing Agreement. Funding Circle Espana SLU ("Funding Circle Spain") has been appointed pursuant to the Spanish Origination Agreement and the Spanish Servicing Agreement. Funding Circle CE GmbH ("Funding Circle CE") has been appointed pursuant to the German Origination Agreement and the German Servicing Agreement. Each of Funding Circle Netherlands and Funding Circle Spain has agreed to designate Funding Circle CE as sub-contracting agent for the purposes of their respective Origination Agreements and Servicing Agreements.

The Group does not pay Funding Circle any fees on the initial origination of loans.

Funding Circle UK is entitled to receive loan servicing fees equal to 1 per cent. per annum, calculated daily, on the aggregate outstanding principal balance of the portfolio of loans held by each of Basinghall, Lambeth and Queenhithe excluding any loans which have been charged off as defined in the Servicing Agreement. Servicing fees to Funding Circle UK of £1,386,591 were incurred during the year (2019: £1,963,510). Servicing fees outstanding as at 31 March 2020 were £56,860 (2019: £190,281). Following the transfer of credit assets by Lambeth to Basinghall on 17 June 2020, Lambeth's servicing agreement in place with Funding circle UK was terminated on the same date.

FCGPL is also entitled to receive fees under the Services Agreement at an annual rate of 0.1 per cent. of net asset value of the Group. This fee accrued from the date on which the Group made investments in respect of loans in an amount equal to 80 per cent. of the gross IPO issue proceeds of £150 million. During the year ended 31 March 2020, £284,691 (2019: £323,643) was incurred under the Services Agreement. Corporate servicing fees outstanding as at 31 March 2020 was £nil (2019: £190,281).

Funding Circle US is entitled to receive loan servicing fees equal to 1 per cent. per annum, calculated daily, on the aggregate outstanding principal balance of the portfolio of loans held by the Company which have been originated in the US excluding any loans which have been charged off as defined in the Servicing Agreement. Servicing fees to Funding Circle US of £604,327 were incurred during the year (2019: £1,081,279). Servicing fees outstanding as at 31 March 2020 were £36,748 (2019: £70,617).

Funding Circle Netherlands is entitled to receive loan servicing fees equal to 1 per cent. per annum, calculated daily, on the aggregate outstanding principal balance of the portfolio of loans held by Tallis excluding any loans which have been charged off as defined in the Servicing Agreement.

Funding Circle Spain is entitled to receive loan servicing fees equal to 1 per cent. per annum, calculated daily, on the aggregate outstanding principal balance of the portfolio of loans held by Tallis excluding any loans which have been charged off as defined in the Servicing Agreement.

Funding Circle Deutschland GmbH is entitled to receive loan servicing fees equal to 1 per cent. per annum, calculated daily, on the aggregate outstanding principal balance of the portfolio of loans held by Tallis excluding any loans which have been charged off as defined in the Servicing Agreement.

Funding Circle CE receives servicing fees for Funding Circle Netherlands, Funding Circle Spain and Funding Circle Deutschland GmbH as per the sub-contracting agency agreement. Servicing fees to Funding Circle CE during the year amounted to £526,327 (2019: £406,348). Servicing fees outstanding as at 31 March 2020 were £35,579 (2019: £90,318).

Each of the Funding Circle entities is entitled to additional fees of up to 40 per cent. of collections received on charged off assets under each of the relevant Services Agreement in reimbursement of costs incurred in respect of collection charges and external legal fees. No such additional fees were charged to the Group during the current year or the prior year.

Administration, company secretarial and cash management

Sanne Group (Guernsey) Limited ("Sanne Guernsey") has been appointed as Administrator to the Company pursuant to the Administration Agreement. The Administrator also acts as Company Secretary and Cash Manager of the Company.

Sanne Guernsey is entitled to receive an annual fee equal to five basis points of the net asset value of the Group subject to a minimum amount of £85,000 (2019: £85,000). Administration fees of £188,780 were incurred during the year (2019: £204,796). There were no administration fees outstanding as at 31 March 2020 and 31 March 2019.

16. FEES AND EXPENSES – (CONTINUED)

Sanne Capital Markets Ireland Limited ("Sanne Ireland") has been appointed as Administrator to Basinghall, Tallis and Lambeth and is entitled to receive an annual fee for each entity of £58,000 (2019: £58,000). Administration fees of £172,601 were incurred during the year (2019: £208,227) (including fees for additional work performed). There were no administration fees outstanding as at 31 March 2020 and 31 March 2019.

Intertrust Management Ireland Limited ("Intertrust Ireland") has been appointed as Administrator to Queenhithe and is entitled to receive an annual fee of £23,000. Administration fees of £56,549 (2019: £35,865) were incurred during the year. The total administration fees outstanding as at 31 March 2020 was £1,779 (2019: £7,253).

Registrar

Link Asset Services (the "Registrar") has been appointed as the Company's Registrar to undertake maintenance of the statutory books of the Company and to perform such related activities as are required to carry out the registrar function. The Registrar is entitled to an annual maintenance fee per shareholder subject to a minimum charge of £4,500 (2019: £4,500) per annum. Registrar service fees of £61,588 were incurred during the year (2019: £45,375). Registrar service fees outstanding as at 31 March 2020 amounted to £26,811 (2019: £2,565).

Currency management fee

Record Currency Management Limited has been appointed as currency manager. The currency manager is entitled to fees calculated based on the GBP equivalent amount of the US Dollar and EUR denominated exposure being hedged within the Group's portfolio. Fees of £106,335 were incurred during the year (2019: £123,283). Fees outstanding as at 31 March 2020 amounted to £25,020 (2019: £29,895).

Audit, audit related and non-audit related services

Remuneration for all work carried out for the Group by the statutory audit firm in each of the following categories of work is disclosed below:

	31 March 2020		31 March 2019	
Type of service	**PwC CI**	**PwC Ireland**	**PwC CI**	**PwC Ireland**
	£	**£**	**£**	**£**
Audit of the financial statements	109,220	104,197	134,460	108,798
Review of half-yearly financial statements	22,000	—	22,000	—
Tax related services	—	34,940	—	21,601
Other non-audit services	14,399	—	14,011	—
	145,619	**139,137**	**170,471**	**130,399**

17. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's 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 adherence to limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. Below is a summary of the risks that the Group is exposed to as a result of its use of financial instruments.

i) Operational risk

The directors outsource most of the Company's operations to third parties which increases the operational risk in which the Company is exposed to.

The Group is dependent on Funding Circle's resources and on the ability and judgement of the employees of Funding Circle and its professional advisers to originate and service the Credit Assets purchased by the Group. Failure of Funding Circle's Platform or inconsistent operational effectiveness of the internal controls at Funding Circle may result in financial losses to the Group.

The Board manages this risk by performing a regular evaluation of Funding Circle's performance against the terms and conditions of the Group's agreements with Funding Circle.

ii) Market risk

Market risk is the risk of changes in market rates, such as interest rates, foreign exchange rates and equity prices, affecting the Group's income and/or the value of its holdings in financial instruments.

17. FINANCIAL RISK MANAGEMENT – (CONTINUED)

ii) Market risk – (continued)

The Board of Directors regularly reviews the Credit Assets portfolios and industry developments to ensure that any events which impact the Group are identified and considered in a timely manner.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group is exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its cash balances and indirectly on the pricing of and returns from Credit Assets. This may also impact on the disclosed fair values of the investments into the EIB transaction.

Loans are held by the Group at amortised cost and bear fixed interest rates. The Board has not performed an interest rate sensitivity analysis on these loans as they are intended to be held until maturity and bear fixed interest rates. Financial instruments with floating interest rates that reset as market rates change are exposed to cash flow interest rate risk. As at 31 March 2020, the Group had £46.6 million (31 March 2019: £29.41 million) of the total assets classified as cash and cash equivalents with floating interest rates. At 31 March 2020, had interest rates increased or decreased by 25 basis points with all other variables held constant, the change in the value of future expected cash flows of these assets would have been £116,506 (31 March 2019: £73,521). The Board of Directors believes that a change in interest rate of 25 basis points is a reasonable measure of sensitivity in interest rates based on their assessment of market interest rates at the year end.

The Group is also exposed to interest rate risk in respect of its external loans payable. The Board manages the risk of significant increase in interest cost due to interest rate fluctuation by putting interest rate caps in place. Interest on the external loans payable also reset to market rates no longer than on a quarterly basis.

Currency risk

Currency risk is the risk that the value of the Group's net assets will fluctuate due to changes in foreign exchange rates.

Aside from GBP, the Group has invested in loans denominated in US Dollars and Euro, and may invest in loans denominated in other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Board of Directors monitors the fluctuations in foreign currency exchange rates and uses forward foreign exchange swaps to seek to hedge the currency exposure of the Group arising from US Dollar and Euro denominated investments.

The currency risk of the Group's non-GBP monetary financial assets and liabilities as at 31 March 2020 including the effect of a change in exchange rates by 5% is shown below. The effect of a 5% change is shown below by applying an increase (for favourable change in currency rates) or a decrease (for unfavourable change in currency rates) to the reported amounts of the assets and liabilities of the Group. The Directors believe that a change of 5% in currency exchange rates is a reasonable measure of sensitivity based on available data on currency rates at the year end.

	Carrying amount as at 31 March 2020	Effect of a 5% change in currency rate	Carrying amount as at 31 March 2019	Effect of a 5% change in currency rate
	£	£	£	£
US Dollar	32,464,006	1,623,200	74,327,466	3,716,373
Euro	35,300,829	1,765,041	62,516,717	3,125,836
Total	**67,764,835**	**3,388,241**	**136,844,183**	**6,842,209**

The Group's exposure has been calculated as at the year end and may not be representative of the year as a whole. Furthermore, the above currency risk estimate does not take into account the effect of the Group's foreign exchange hedging policy. The net foreign exchange gain charged to the Consolidated Statement of Comprehensive Income during the year was GBP 925,963 (2019: loss of GBP 1,027,173). The details of the net foreign exchange gain or loss are shown below.

17. FINANCIAL RISK MANAGEMENT – (CONTINUED)

ii) Market risk – (continued)

	31 March 2020	31 March 2019
	£	£
Unrealised foreign currency gains	5,388,447	7,983,419
Unrealised foreign currency losses	—	(93,167)
Realised gains on currency derivatives	8,879,663	3,182,697
Realised losses on currency derivatives	(8,949,337)	(11,764,832)
Unrealised fair value losses on currency derivatives	(4,392,813)	(335,290)
	925,960	**(1,027,173)**

iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Substantially all of the non-cash assets held by the Group are illiquid.

The Board of Directors manages liquidity risk through active monitoring of amortising cash flows and reviewing the Group cash flow forecast on a regular basis. Prior to the EGM on 11 June 2019, the Group was allowed to borrow up to 0.5 times the then-current net asset value of the Group at the time of borrowing. The Board will focus on achieving a managed wind down of the Company and any further borrowing is not anticipated.

Maturity profile

The following tables show the contractual maturity of the financial assets and financial liabilities of the Group:

As at 31 March 2020

	Within one year	One to five years	Over five years	Total
	£	£	£	£
Financial assets				
Cash and cash equivalents	46,602,238	—	—	46,602,238
Loans advanced	144,218,172	114,895,866	—	259,114,038
Other receivables	48,533	—	—	48,533
	190,868,943	**114,895,866**	**—**	**305,764,809**

	Within one year	One to five years	Over five years	Total
	£	£	£	£
Financial liabilities				
Fair value of currency derivatives	3,400,699	—	—	3,400,699
Accrued expenses and other liabilities	1,802,424	—	—	1,802,424
Loans payable	900,997	10,630,079	—	11,531,076
	6,104,120	**10,630,079**	**—**	**16,734,199**

As at 31 March 2019

	Within one year	One to five years	Over five years	Total
	£	£	£	£
Financial assets				
Cash and cash equivalents	29,408,480	—	—	29,408,480
Loans advanced	119,704,182	257,075,033	—	376,779,215
Financial assets at fair value through profit or loss	7,495,244	8,070,133	—	15,565,377
Fair value of currency derivatives	992,114	—	—	992,114
Other receivables	495,078	—	—	495,078
	158,095,098	**265,145,166**	—	**423,240,264**

17. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iii) Liquidity risk – (continued)

	Within one year	One to five years	Over five years	Total
	£	£	£	£
Financial liabilities				
Accrued expenses and other liabilities	1,563,540	—	—	1,563,540
Loans payable	96,220	73,555,400	—	73,651,620
	1,659,760	**73,555,400**	**—**	**75,215,160**

iv) Credit risk and counterparty risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. Impairment recognised on the loans advanced is disclosed in note 4.

The Group's credit risks arise principally through exposures to loans advanced by the Group, which are subject to the risk of borrower default. As disclosed in note 4, the loans advanced by the Group are predominantly unsecured, but the Group holds assets as security for certain property-related loans.

Credit quality

The credit quality of loans is assessed on an ongoing basis through evaluation of various factors, including credit scores, payment data and other information related to counterparties. This information is subject to stress testing on a regular basis.

Set out below is the analysis of the Group's loan investments by internal grade rating:

	Carrying value 31 March 2020	% of Carrying value 31 March 2020	Carrying value 31 March 2019	% of Carrying value 31 March 2019
Internal grade	**£**	**%**	**£**	**%**
A+	44,508,893	22.24	76,605,880	22.52
A	64,766,756	32.37	107,574,093	31.62
B	43,947,527	21.96	75,150,385	22.09
C	25,755,451	12.87	44,115,396	12.97
D	15,232,403	7.61	26,418,075	7.76
E	5,883,100	2.94	10,359,039	3.04
	200,094,130	**100.00**	**340,222,868**	**100.00**

The internal grade risk rating assigned to a borrower is based on Funding Circle's proprietary credit scoring methodology to evaluate each loan application. Analysis has regard to all the relevant application data gathered so far as well as information obtained from commercial and consumer credit bureaus. It also includes analysis of the borrower's financial information.

Allocation limits

The Board of Directors implemented the following portfolio limits to manage the concentration risk exposure of the Group:

The proportionate division between loans originated through the various Platforms (as defined in the Prospectus) must fall within the ranges set out below. The actual proportion within the ranges will be determined by Funding Circle UK (and communicated by Funding Circle UK to Funding Circle US, Funding Circle CE, and other Funding Circle group entities, as appropriate) pursuant to the Services Agreement:

- originated through the UK Platform – between 50 per cent. and 100 per cent. of the gross asset value of the Group
- originated through the US Platform – between 0 per cent. and 50 per cent. of the gross asset value of the Group
- originated through the CE Platform – between 0 per cent. and 15 per cent. of the gross asset value of the Group

Other limitations

In addition to the allocation limits described above, in no circumstances will loans be acquired by the Group, nor will indirect exposure to loans be acquired, if such acquisition or exposure would result in:

17. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iv) Credit risk and counterparty risk– (continued)

- excess of 50 per cent. of the gross asset value being represented by loans in respect of which the relevant borrower is located in the US; or
- the amount of the relevant loan or borrowing represented by any one loan exceeding, or resulting in the Group's exposure to a single borrower exceeding (at the time such investment is made) 0.75 per cent. of the net asset value.

The allocation limits and other limitations shown above no longer apply after shareholders passed the resolutions at the EGM on 11 June 2019.

Banking counterparties

The Group is also exposed to credit risk in relation to cash placed with its banking counterparties. The Directors monitor the credit quality of these banking counterparties on a regular basis.

The Group may invest cash held for working capital purposes and pending investment or distribution in cash or cash equivalents, government or public securities, money market instruments, bonds, commercial paper or other debt obligations with banks or other counterparties having a "BBB" (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the Board.

The Group held cash with the following financial institutions:

	Amount as at 31 March 2020 £	Short term credit rating (S&P)	Amount as at 31 March 2019 £	Short term credit rating (S&P)
HSBC	3,159,701	A-1	4,460,256	A-1+
Santander	16,500,000	A-1	500,000	A-1
Barclays	25,538,482	A-2	22,991,463	A-1
Citibank	1,404,055	A-2	1,456,761	A-1
Total	**46,602,238**		**29,408,480**	

In addition, the Group uses forward foreign currency transactions to seek to minimise the Group's exposure to changes in foreign exchange rates. The Group is exposed to counterparty credit risk in respect of these transactions. The Board of Directors employs various techniques to limit actual counterparty credit risk, including the requirement for cash margin payments or receipts for foreign currency derivative transactions on a regular basis. As at year end, the Group's derivative counterparties were State Street and Northern Trust. The long term-credit rating of State Street as at 31 March 2020 assigned by Moody's was Aa1 (31 March 2019: Aa1). The long term-credit rating of Northern Trust as at 31 March 2020 assigned by Moody's was Aa2 (2019: Aa2). The Directors monitor the credit quality of these banking counterparties on a regular basis.

v) Fair value estimation

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities. Investments, whose values are based on quoted market prices in active markets and are therefore classified within Level 1, include active listed equities. The quoted price for these instruments is not adjusted;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information; and
- Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes "observable" requires significant judgement by the Group. The Group considers observable

17. FINANCIAL RISK MANAGEMENT – (CONTINUED)

v) Fair value estimation – (continued)

data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

The Group's only financial instruments measured at fair value as at 31 March 2020 are its currency derivatives and the investment in the EIB transaction.

The fair value of the currency derivatives held by StateStreet and Northern Trust were estimated by Record Currency Management Limited based on the GBP-USD forward exchange rate, the GBP-EUR forward exchange rate, the GBP-USD spot rate and the GBP-EUR spot rate as at 31 March 2020.

The fair value of the EIB transaction has been estimated by discounting future cash flows expected from the investment. The estimated fair value and carrying amount of the EIB transaction was nil at 31 March 2020 (2019: £12,349,178).

The Board of Directors believe that the fair value of the currency derivatives falls within Level 2 in the fair value hierarchy described above. The fair value of the EIB transaction falls within Level 3 in the fair value hierarchy due to the unobservable inputs used in the valuation which include discount rate and timing and amounts of cash flows.

The following table presents the fair value of the Group's assets and liabilities not measured at fair value as at 31 March 2020 but for which fair value is disclosed:

	31 March 2020			
	Level 1 **£**	**Level 2** **£**	**Level 3** **£**	**Total** **£**
Loans advanced	—	—	169,800,037	169,800,037
Cash and cash equivalents	46,602,238	—	—	46,602,238
Other receivables and prepayments	—	48,533	—	48,533
Loans payable	—	—	(11,531,076)	(11,531,076)
Accrued expenses and other liabilities	—	(1,802,424)	—	(1,802,424)
	46,602,238	**(1,753,891)**	**158,268,961**	**203,117,308**

	31 March 2019			
	Level 1 **£**	**Level 2** **£**	**Level 3** **£**	**Total** **£**
Loans advanced	—	—	332,038,427	332,038,427
Cash and cash equivalents	29,408,480	—	—	29,408,480
Other receivables and prepayments	—	590,648	—	590,648
Loans payable	—	—	(73,651,620)	(73,651,620)
Accrued expenses and other liabilities	—	(1,563,540)	—	(1,563,540)
	29,408,480	**(972,892)**	**258,386,807**	**286,822,395**

The Board of Directors believe that the carrying values for cash and cash equivalents, other receivables and prepayments, loans payable and accrued expenses and other liabilities approximate their fair values.

In the case of cash and cash equivalents, other receivables and prepayments, and accrued expenses and other liabilities the amount estimated to be realised in cash are equal to their value shown in the Consolidated Statement of Financial Position due to their short term nature.

There were no transfers between levels during the year or the prior year.

17. FINANCIAL RISK MANAGEMENT – (CONTINUED)

v) Fair value estimation – (continued)

The managed wind-down of the Company is being operated with a view to the Company realising all of its investments in accordance with the Investment Objective. Such realisations will comprise natural amortisation of the Company's investments in Credit Assets as well as potentially opportunistic portfolio sales.

During the financial year, the Company ran an auction process as the Board explored a potential sale of a portion of the Company's assets during which it received a high level of interest from potential buyers. As announced in April 2020, it is still the Company's intention to effect a sale of a portion of its assets and the Company continues to engage with potential buyers. That said, given the recent market volatility and uncertainty caused by COVID-19, it is likely the asset sales shall be delayed, or may not proceed at all.

As a result of the Company's managed wind-down and change in business model, the Company is required to report under fair value accounting for the valuation of Credit Assets from 1 April 2020. The Company has appointed a third party valuation expert to provide quarterly valuations of its Loans advanced. The fair value of loans advanced disclosed in the table above as at 31 March 2020 prepared by the valuation expert has been estimated by discounting expected future cash flows from the loans advanced using a discount rate determined by the Directors based on appropriate market comparatives. This change in methodology is also discussed in note 2.

Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Group. The Group's capital is represented by Ordinary share capital and retained earnings. The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objectives.

The Group is not subject to externally imposed capital requirements. However, certain calculations on the employment of leverage are required under the AIFMD. This directive requires more information to be reported if the Group's leverage exceeds three times its net asset value. As at 31 March 2020, the Group used leverage through the Queenhithe, EIB and Citibank transactions but did not exceed the threshold within the directive and therefore did result in a change of the reporting requirements as prescribed by AIFMD.

18. RELATED PARTY DISCLOSURE

The Directors, who are the key management personnel of the Group, are remunerated per annum as follows:

	£
Chairman	50,000
Audit Committee Chairman	40,000
Risk Committee Chairman	40,000
Other Directors	50,000
	180,000

Sachin Patel has waived his fees as a director of the Company.

Richard Burwood is/was also a director of Basinghall, Tallis, Lambeth and Queenhithe and is entitled to receive £5,000 (2019: £5,000) per annum as Director's fees from each of the companies. Richard Burwood resigned as a director of Basinghall and Tallis on 13 July 2020

The Directors held the following number of shares as at 31 March 2020 and 31 March 2019:

	As at 31 March 2020		**As at 31 March 2019**	
	Number of shares	**% of total shares in issue**	**Number of shares**	**% of total shares in issue**
Richard Boléat	4,448	0.0015	5,000	0.0015
Jonathan Bridel	4,448	0.0015	5,000	0.0015
Richard Burwood	4,448	0.0015	5,000	0.0015
Frederic Hervouet	95,176	0.0327	107,000	0.0330
Sachin Patel	—	—	—	—
	108,520	**0.0372**	**122,000**	**0.0375**

18. RELATED PARTY DISCLOSURE – (CONTINUED)

Movement in the number of shares held by each of the directors during the year relates to the redemptions paid by the Company.

The Group had no employees during the year or the prior year.

The Directors delegate certain functions to other parties. In particular, the Directors have appointed Funding Circle UK, Funding Circle US and Funding Circle CE to originate and service the Group's investments in loans and FCGPL to provide corporate services. Notwithstanding these delegations, the Directors have responsibility for exercising overall control and supervision of the services provided by the Funding Circle entities, for risk management of the Group and otherwise for the Group's management and operations.

The transaction amounts incurred during the year and amounts payable to each of Funding Circle UK, FCGPL, Funding Circle US and Funding Circle CE are disclosed below.

	Transaction	Expense during the year ended 31 March 2020 £	Payable as at 31 March 2020 £	Expense during the year ended 31 March 2019 £	Payable as at 31 March 2019 £
Funding Circle UK	Servicing fee	1,386,591	56,860	1,963,510	217,052
FCGPL	Corporate services fee	284,691	—	323,643	26,771
FCGPL	Reimbursement of expenses	28,093	1,549	90,838	4,026
Funding Circle US	Servicing fee	604,327	36,748	1,081,279	70,617
Funding Circle CE	Servicing fee	526,327	35,579	406,348	90,318

19. INVESTMENT IN SUBSIDIARIES

The Company accounts for its interest in the following entities as subsidiaries, in accordance with the definition of subsidiaries and control set out in IFRS 10:

	Country of incorporation	Principal activity	Transactions	Outstanding amount as at 31 March 2020 £	Outstanding amount as at 31 March 2019 £
Basinghall Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in the UK	Subscription of notes issued	127,017,192	144,497,863
Tallis Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in Germany, the Netherlands and Spain*	Subscription of notes issued	39,421,897	60,481,924
Lambeth Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in UK	Subscription of notes issued (through Basinghall)	66,216,309	64,773,753
Queenhithe Lending Designated Activity Company	Ireland	Investing in Credit Assets originate in the UK	Subscription of notes issued (through Basinghall)	31,720,795	31,197,518
				264,376,193	**300,951,058**

**The Group ceased originating loans in Spain from January 2017.*

20. SUBSEQUENT EVENTS

On 11 April 2020, Lambeth fully repaid the remaining amount owed on its senior loan to Citi. The remaining portfolio of Credit Assets held were transferred to Basinghall on 17 June 2020 for an amount equal to the outstanding balance of the Class B note in issue. The process is underway in order to put Lambeth into formal liquidation in the coming months.

Subsequent to 31 March 2020, there has been an increase in the number of delinquencies across the portfolios as the impact caused by the COVID-19 pandemic started to affect businesses.

Funding Circle has implemented forbearance measures for eligible borrowers, including short term payment plans and payment holidays, to assist creditworthy borrowers whose businesses have suffered a short-term liquidity shock as a result of the current environment. As at 30 June 2020, 15% of the combined portfolio by outstanding principal was on forbearance measures through either a partial payment plan or payment holiday as at 30 June 2020, with almost half of those on partial payment plans.

The number of new delinquencies has fallen over the last few weeks from the peak in April and May and we are beginning to see the impact of monetary and fiscal stimulus, in particular BBLS (100% Government-guaranteed loans up to £50,000) on the UK portfolio. Since BBLS launched we have seen an increase in prepayments and settlements, both from businesses who are current in their payments and also borrowers who are delinquent, which has supported credit performance.

The Board believes that it is still too early to make a reasonable assessment of the medium to long term effect these measures will have to the Group’s portfolio. Further updates will be provided as more reliable data become available.

With effect from 1 April 2020, and the first subsequent valuation date of 30 June 2020, the Company now measures its loan portfolios using a fair value accounting model which seeks to determine the present value of future cash flows from the Company’s loan portfolios by utilising statistical portfolio data in relation to prepayment, default and post default recovery trends and then applying a suitable discount rate derived primarily from market comparables.

The NAV calculated on a fair value basis as at 30 June 2020 was £191.3m and under the previous amortised cost method would have been £198.0m.

On 21 July 2020, the Company announced that it has declared a quarterly dividend of 1.3125 pence per share payable on 14 August 2020 and will also be returning approximately £20.0m to shareholders by way of a compulsory partial redemption of shares payable on 7 August 2020.

BOARD OF DIRECTORS

Richard Boléat

Chairman, Remuneration and Nominations Committee Chairman, Non-executive Director

Richard Boléat was born in Jersey in 1963. He is a Fellow of the Institute of Chartered Accountants in England & Wales, having trained with Coopers & Lybrand in Jersey and the United Kingdom. After qualifying in 1986, he subsequently worked in the Middle East, Africa and the UK for a number of commercial and financial services groups before returning to Jersey in 1991. He was formerly a Principal of Channel House Financial Services Group from 1996 until its acquisition by Capita Group plc ("Capita") in September 2005. Mr Boléat led Capita's financial services client practice in Jersey until September 2007, when he left to establish Governance Partners, L.P., an independent corporate governance practice. He currently acts as Chairman of CVC Credit Partners European Opportunities Limited and Yatra Capital Limited and Audit Committee Chairman of M&G Credit Income Investment Trust plc, and also serves on the boards of a number of other substantial collective investment and investment management entities established in Jersey, the Cayman Islands and Luxembourg. He is regulated in his personal capacity by the Jersey Financial Services Commission and is a member of AIMA.

Jonathan Bridel

Audit Committee Chairman, Non-executive Director

Mr Bridel is currently a non-executive Chairman or director of various listed and unlisted investment funds and private equity investment managers. Listings include Starwood European Real Estate Finance Limited (until 31 December 2020), The Renewables Infrastructure Group Limited and Sequoia Economic Infrastructure Income Fund Limited which are listed on the premium segment of the London Stock Exchange. He is also Chairman of DP Aircraft 1 Limited and a director of Fair Oaks Income Fund Limited. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. He is a Chartered Accountant and has specialised in Corporate Finance and Credit. After qualifying as a Chartered Accountant in 1987, Mr Bridel worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. This included heading up an SME Lending business for a major bank in South Australia. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Mr Bridel is a Chartered Marketer and a member of the Chartered Institute of Marketing, a Chartered Director and a Fellow of the Institute of Directors and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

Richard Burwood

Management Engagement Committee Chairman, Non-executive Director

Mr Burwood is a resident of Guernsey with 25 years' experience in banking and investment management. During 18 years with Citibank London Mr Burwood spent 4 years as a Treasury Dealer and 11 years as a Fixed Income portfolio manager covering banks & finance investments, corporate bonds and asset backed securities.

Mr Burwood moved to Guernsey in 2010, initially working as a portfolio manager for EFG Financial Products (Guernsey) Ltd managing the treasury department's ALCO Fixed Income portfolio. From 2011 to 2013 Mr Burwood worked as the Business and Investment manager for the Guernsey branch of Man Investments (CH) AG. This role involved overseeing all aspects of the business including operations and management of proprietary investments.

Mr Burwood serves as Non-Executive Director on the boards of the Roundshield Fund, Guernsey (a European asset backed special opportunities fund providing finance to small and mid-cap businesses) since January 2014 and TwentyFour Income Fund (a UK and European asset backed investments) since January 2013.

Frederic Hervouet

Risk Committee Chairman, Non-executive Director

Fred Hervouet (45) is a resident of Guernsey and has dual nationality with both British and French citizenship. He has more than 20 years of experience in Hedge Funds and Capital Markets roles.

Until end of 2013, Fred was Managing Director and Head of Commodity Derivatives Asia for BNP Paribas including Trading, Structuring and Sales. Prior to BNP Paribas, he also worked for two multi-billion, multi- strategy hedge funds including Quantitative strategies (CTAs), Convertible Arbitrage, Event Driven, Fixed Income Relative Value, Equity & Commodity Long-short, Global Macro, Emerging Markets Debt Fund. In the last 20 years, Fred has worked in different aspects of the Financial Markets and Asset Management Industry. His experience includes Derivatives Markets, Structured Finance, Structured Products and Hedge Funds, Trading and Risk Management.

Fred has worked in Singapore, Switzerland, United Kingdom and France. Most recently, Mr Hervouet was a member of BNP Paribas Commodity Group Executive Committee and BNP Paribas Credit Executive Committees on Structured Finance projects (structured debt and Trade Finance).

Fred now acts as a full time dedicated Non-executive Director of a number of listed and non-listed companies. He is the Chairman of Chenavari Toro Income Fund listed on the SFM of the LSE and a director of Crystal Amber Fund Limited. He is also a GP on a number of Guernsey Private Equity Funds (Terra Firma, Lakestar, Telstra Ventures, LCH Partners).

BOARD OF DIRECTORS

Fred graduated from the University of Paris Dauphine, France achieving a Masters (DESS 203) in Financial Markets, Commodity Markets and Risk Management and an MSc in Applied Mathematics and International Finance.

Fred has provided investment and risk management services to corporations and institutions worldwide and worked with CEOs, CFOs and Head of Investment Divisions. Appearances on financial programs include CNBC, Bloomberg and other networks. He is a member of various financial services interest Groups including the UK Institute of Directors, the UK Association of Investment Companies, the Guernsey Chamber of Commerce and of the Guernsey Investment Fund Association ("GIFA").

Sachin Patel
Non-executive Director
Sachin Patel is the Chief Capital Officer at Funding Circle, leads the Global Capital Markets group and is responsible for investor strategy. Previously, Sachin was Vice President in the cross-asset structured products and solutions businesses at Barclays Capital and, prior to this, at J.P. Morgan, advising a wide variety of investors including insurance companies, pension funds, discretionary asset managers and private banks.

By virtue of Sachin's role at Funding Circle Limited, Sachin is not an independent Director. Notwithstanding this, Sachin has undertaken in his service contract with the Company to communicate to the Board any actual or potential conflict of interest arising out of his position as a Director and the other Directors have satisfied themselves that procedures are in place to address potential conflicts of interest.

Sachin is not entitled to any fee for the services provided and to be provided in relation to his directorship, although the Company shall, during the course of his appointment, reimburse all properly incurred out-of-pocket expenses incurred in the execution of his duties as a Director.

AGENTS AND ADVISORS

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(Guernsey, Channel Islands)

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GLOSSARY

Definitions and explanations of methodologies used are shown below. The Company's prospectus contains a more comprehensive list of defined terms.

"Administrator"	Sanne Group (Guernsey) Limited
"Affiliates"	With respect to any specified person means: (a) any person that directly or indirectly controls, is directly or indirectly controlled by or is directly or indirectly under common control with such specified person; (b) any person that serves as a director or officer (or in any similar capacity) of such specified person; (c) any person with respect to which such specified person serves as a general partner or trustee (or in any similar capacity). For the purposes of this definition, ''control'' (including ''controlling'', ''controlled by'' and ''under common control with'') means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.
"AGM"	Annual General Meeting
"AIC Code"	The AIC Code of Corporate Governance
"AIC"	The Association of Investment Companies, of which the Company is a member
AIFM"	Alternative Investment Fund Manager, appointed in accordance with the AIFMD
"AIFMD"	The Alternative Investment Fund Managers Directive
"Available Cash"	Cash determined by the Board as being available for use by the Company in accordance with the Investment Objective, and, in respect of Basinghall and Tallis, cash determined by the Board of each of Basinghall and Tallis Board (having regard to the terms of the Origination Agreement and the Note) for use by Basinghall and Tallis and excluding (without limitation) amounts held as reserves or pending distribution
"CE"	Continental Europe
"Company Secretary"	Sanne Group (Guernsey) Limited
"Credit Assets"	Loans or debt or credit instruments of any type originated through any of the Platforms
"Credit Losses"	A measure of performance showing the decrease in carrying value of Credit Assets as a result of actual or possible default events. Details of the methodology including key inputs are disclosed in note 3 (b).
"Dividend Per Share"	A measure of performance showing dividend either declared or paid for each share issued and outstanding in the Company
"EGM"	The Extraordinary General Meeting on 11 June 2019
"Funding Circle"	FCGPL, Funding Circle UK, Funding Circle US, Funding Circle CE or either of their respective Affiliates (as defined in the Prospectus of the Company), or any or all of them as the context may require
"Funding Circle CE"	Funding Circle CE GmbH and Funding Circle Deutschland GmbH
"Funding Circle Netherlands"	Funding Circle Nederlands B.V.

GLOSSARY

“Funding Circle Spain”	Funding Circle Espaňa SLU
“FCGPL”	Funding Circle Global Partners Limited
“Funding Circle UK”	Funding Circle Limited
“Funding Circle US”	FC Platform, LLC
“NAV Total Return”	A measure of performance showing how the NAV per share has performed over a period of time. This is calculated by comparing the NAV per share at the beginning of a period to the NAV per share at the end of a period removing the effect of capital returns and dividend payments.
“Near Affiliates”	The relevant Irish subsidiary of the Company and any other SPV or entity which, not being an Affiliate of the Company, has been or will be formed in connection with the Company’s direct or indirect investment in Credit Assets and which (save in respect of any nominal amounts of equity capital) is or will be financed solely by the Company or any Affiliate of the Company
“Note” or “Profit Participating Note”	Notes issued by Basinghall Lending Designated Activity Company and Tallis Lending Designated Activity Company under their separate note programmes
“Origination Agreements"	The German Origination Agreement, the Dutch Origination Agreement, the Spanish Origination Agreement, the UK Origination Agreement, the US Origination Agreement, and the CE Origination Agreements
“Platforms”	The platforms operated in the UK, US and CE by Funding Circle, together with any similar or equivalent platform established or operated by Funding Circle in any jurisdiction.
“Proposals”	The proposals contained in the circular issued on 21 May 2019 which were subsequently approved at the EGM on 11 June 2019. These included the proposals to (1) modify the Company’s Investment Objective and Policy to reflect a realisation strategy; (2) amend its Articles of Incorporation (the “Articles”) to include a mechanism to enable the Company to redeem shares in the Company compulsorily so as to return cash to shareholders; (3) appoint Funding Circle Global Partners Limited (“FCGPL”) to facilitate potential portfolio sales on behalf of the Company and to (4) change the name of the Company into SME Credit Realisation Fund Limited (“SCRF”) consistent to the proposed modification of the Company’s Investment Objective and Policy.
“Prospectus”	The prospectus issued on the initial IPO on 30 November 2015 and subsequently revised in February 2017 and in August 2018
“PwC”	PricewaterhouseCoopers CI LLP, PricewaterhouseCoopers Ireland
“PwC CI”	PricewaterhouseCoopers CI LLP
“PwC Ireland”	PricewaterhouseCoopers Ireland
“PwC UK”	PricewaterhouseCoopers LLP
“Share Price Premium or Discount to NAV”	A measure of performance showing difference between the Group’s NAV per share and the prevailing share price.
"Share Price Total Return”	A measure of performance showing how the share price has performed over a period of time. This is calculated by comparing the change in NAV per share (after removing the effect of capital returns and dividend payments) over a period to the share price of the Company.
“Share Redemption”	A mechanism to enable the Company to redeem shares compulsorily so as to return cash to Shareholders as disclosed in the EGM circular published on 21 May 2020.

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