Funding Circle SME Income Fund

Annual Report and Audited Consolidated Financial Statements

for the year ended 31 March 2017

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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

- NAV increased to £164.8m from £148.3m, including £14.5m in additional capital raised in July 2016
- Participated in a joint project with the European Investment Bank providing indirect exposure to a pool of £125m of UK SME loans at attractive commercial terms
- Paid 5.875 pence per ordinary share for this first full year of operation, covered 1.16 times by earnings
- The last four quarterly dividends declared total 6.5 pence per ordinary share, in line with the dividend target of 6 to 7 pence per ordinary share
- Raised c.£142m through a C share issue in April 2017, which will provide expanded funding opportunities to SMEs in the UK, US and Continental Europe

The information below are presented as at 31 March 2017 unless expressly stated to cover a period.

NAV per Ordinary Share	Total Net Assets	Ordinary Share Price	Market Capitalisation	Premium on Share Price
99.87p	£165mil	103.75p	£171mil	3.9%

Dividend per Ordinary Share	Earnings per Share	Share Price Total Return (inception to date)	NAV Total Return (inception to date)
5.875p	6.93p	9.9%	7.9%

SUMMARY INFORMATION

About the Company

Funding Circle SME Income 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.

The Company issued 150 million Ordinary Shares of no par value each at an issue price of £1 per Ordinary Share. On 30 November 2015, these shares were admitted to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange's main market (the "IPO").

In June 2016, the Company participated in a structured finance transaction with the European Investment Bank "EIB" ("the EIB Transaction"). The transaction involved the set up of an Irish domiciled special purpose vehicle (SPV). The Company invested £25 million into the Class B Note issued by the Irish SPV whilst the EIB has committed to invest up to £100 million in a senior loan to the Irish SPV.

On 20 July 2016, the Company issued a further 14,285,000 Ordinary Shares at a price of £1.0153 per Ordinary Share raising net proceeds of £14,213,490 after direct issue costs of £290,071. The Ordinary Shares were admitted to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange's main market on 25 July 2016.

In February 2017, the Company issued a revised prospectus which established a programme by which the Directors are able to issue up to 500 million ordinary shares and/or C shares in aggregate.

In April 2017, the Company issued 142 million C Shares at a price of £1 per C share raising net proceeds of £139,870,000 after issue costs of £2,130,000. The C shares were admitted to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange on 12 April 2017.

The investment objective of the Company is to provide shareholders with a sustainable and attractive level of dividend income by lending, both directly and indirectly, to small businesses through Funding Circle's Marketplaces. The Board believes that lending platforms with established infrastructure and scale of origination volumes are well placed to compete for loan originations against traditional financial institutions. The Company has identified Funding Circle, which operates in various Marketplaces, as a leader in the growing industry of alternative lending to small and medium sized entities ("SMEs").

In accordance with the Company's investment policy, the Company holds a number of its investments in loans through SPVs. This annual report for the year ended 31 March 2017 (the "Annual Report") includes the results of Basinghall Lending Designated Activity Company ("Basinghall") and Tallis Lending Designated Activity Company ("Tallis"). The Company, Basinghall and Tallis are collectively referred to in this report as the "Group".

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to be able to make this statement at the end of a period of solid progress for the Company. When I last wrote to you, in support of the interim financial statements for the period to 30 September 2016, I set out the steps that were being taken in order to meet the Company's objectives as set out at IPO. Since that time, all of the key actions have been completed, and thus the Company was operating on a fully invested basis from September 2016.

Performance and Distributions

Performance during the year to 31 March 2017 has been pleasing, and in line with expectations. The Company's allocation to UK, US and CE credit assets broadly reflects origination volumes across the respective Funding Circle marketplaces, in accordance with the Allocation Limits set out in the Prospectus. The preponderance of UK credit asset exposure is slightly higher than initially expected at IPO, owing to the mix of Funding Circle originations during the first half of 2016. There was a slight reduction in average returns arising from higher cash levels required to be held in support of the Company's currency hedging programme given the movements in the Sterling / US Dollar exchange rate. These effects have been offset by an above target return from the Company's exposure to the structured finance transaction with the EIB as set out in earlier statements and announcements. After taking account of slightly higher expense levels than anticipated, net profit to dividend cover for the year ended 31 March 2017 stood at 1.16x. Delinquencies across the Company's portfolio continue to track within the range of expected outcomes. Quarterly dividends declared during the year amounted to 5.875 pence per ordinary share, comprising of one dividend of 1 pence per ordinary share (reflecting the stage of portfolio ramp up at that time) and 3 dividends of 1.625 pence per ordinary share. The Company's currency hedging program provided effective and efficient management of currency risk. Details of the Company's portfolio as analysed between markets and industries is shown elsewhere in this report.

Performance in Context

Consistent with earlier assessments, changes in administration and political volatility in the Company's key markets have, to date, had no material impact on the Company's portfolio or the level of returns derived therefrom. That having been said, politically driven instability in both the UK and the US, albeit for starkly different reasons, appears likely to be a continuing feature for the near term at least. Such factors are highlighted in the board's consideration of risk generally, and the board is particularly mindful of the risk posed to certain industry subsectors in the UK from the country's ongoing process of withdrawal from the European Union. The Board is also keeping a close eye on monetary policy and policy divergence in the Company's chosen markets, particularly the US, which have the potential to both increase portfolio returns over time, and also impact negatively on the costs of the Company's foreign exchange hedging programme.

In terms of peer group analysis, the Board assesses the performance of the Company as against a universe of direct lenders and listed and unlisted funds investing purely in high yield debt instruments in developed markets. In that regard, the Board notes that the Company's investment strategy continues to provide an attractive positive differential over returns available in performing sub-investment grade corporate debt in both the US and the UK.

Capital Management

The Company fully invested the funds raised at IPO during the period. As a result, and as envisaged in my earlier statements, the Company published a prospectus on 6th February 2017 establishing a twelve month placing programme in respect of both ordinary and C Class Shares. By virtue thereof, a C class issuance was closed on 7th April 2017, raising £142million of fresh capital, which was above target. The Company envisages further capital raising prior to the expiry of the programme, once the capital raised in the C class issue has been fully deployed and the shares converted to ordinary shares, should market conditions support such an offering. The current pace of deployment of the funds raised in the C class offering indicates that the C Class Shares will be converted to ordinary shares by 31st December 2017. The significantly larger market capitalisation of the Company has had the effect of bringing down the total expense ratio.

CHAIRMAN'S STATEMENT

Risk Management and Future Prospects

To supplement the Company's risk management programme established at IPO, the Board has worked closely with Funding Circle to develop an enhanced risk model which has allowed the Board of Directors to examine the effects of a number of stress scenarios to the Company's base case return expectations. These scenarios consider, for example, reasonably foreseeable changes to macro and microeconomic conditions, changes in monetary and fiscal policy in the markets where the Company invests, and the ability of the Company to conservatively re-lever its portfolio up to the level where the Board of Directors feels comfortable, once the funds raised in the recent C class issue have been fully deployed. This scenario analysis programme considers impacts on gross interest rates earned, delinquency rates, leverage funding costs and hedging costs arising from our US loans exposure. The model does not seek to address the impact of potential tail risk events which we believe have a relatively small probability of happening.

As a result of this analysis, the Board of Directors assesses that the Company will continue to be able to deliver the current level of quarterly dividends at least until 31st March 2018[1], which represents the future time period to which the Directors have adequate visibility of market conditions to enable them to provide such guidance. The Company's base case scenario indicates that dividend cover will also continue to be maintained at current levels[1]. I intend to report to shareholders in a similar vein at each semi-annual reporting period, so as to provide suitable forward guidance to the market and shareholders as a whole.

IFRS 9

In July 2014, the International Accounting Standards Board published a new accounting standard known as IFRS 9, effective for annual periods beginning on or after 1 January 2018. In common with its peer group, this standard has a direct effect on the Company, and in particular the manner in which it recognises impairment losses - moving from an "as incurred" model to an "expected credit loss" model. The Company is working with its advisors and Funding Circle to determine the future effects of the implementation of this standard on the Company's reported net asset value per share, and I will report to you further as the outcome of this work is determined.

As is both traditional and appropriate, I would like to express my thanks to my fellow directors, the team at Funding Circle and our professional and financial advisors for their support, diligence and hard work during the period. I would also like to record my thanks to all of the Company's shareholders for entrusting us with your capital. I have enjoyed direct interactions with a number of you over the period under review, and look forward to expanding those contacts in the future.

RICHARD BOLÉAT
Chairman of the Board of Directors
13 July 2017

1 This is a target only and not a profit forecast. There can be no assurance that the target can or will be met and it should not be taken as an indication of the Company's expected or actual future results. Accordingly, shareholders or potential investors in the Company should not place any reliance on this target in deciding whether or not to invest in the Company or assume that the Company will make any distributions at all and should decide for themselves whether or not the target dividend is reasonable or achievable.

STRATEGIC REPORT

Strategy and Business Model

The Group has been 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 Marketplaces operated by Funding Circle and indirectly, in each case as detailed in the Company's investment policy. The Group has identified Funding Circle as a leader in the growing marketplace lending space with its established infrastructure, scale of origination volumes and expertise in accurately assessing loan applications.

Investment Policy

The Company intends to achieve its investment objective by investing in a diversified portfolio of Credit Assets, both directly and indirectly. The Company intends to hold loans through to maturity (subject to the making of indirect investments as described below).

Credit Assets

Credit Assets are loans, debt or credit instruments of any type originated through any of the Marketplaces. The type of loans or debt or credit instruments available through the Marketplaces may vary from time to time, and Funding Circle may in the future acquire, establish and/or operate Marketplaces in addition to its existing Marketplaces. When Funding Circle determines that any new Marketplace may be suitable for receiving investments from the Company (for example, when any such Marketplace is operational and is able to facilitate investment in Credit Assets by the Company in a manner consistent with this Prospectus), then Funding Circle may propose to the Company the terms and documentation on which investments in Credit Assets originated through such Marketplace shall be made (subject always to the Allocation Limits defined in note 15). The determination as to whether to proceed with investment in Credit Assets originated through a Marketplace other than the existing Marketplaces will be made by the Board (subject to the working capital requirements of the Company), and may be subject to other requirements to the extent that the relevant origination and servicing arrangements constitute ''related party transactions'' for the purposes of the Listing Rules (it being noted that it is currently intended that the aggregate remuneration payable to Funding Circle (or other persons which are ''related parties'' of the Company for the purposes of the Listing Rules) will not exceed 5 per cent. of the Company's NAV per annum, such that the modified requirements for smaller related party transactions will be applicable).

Direct Investments

Pursuant to the Origination Agreements, the Company receives a random allocation of Qualifying Assets originated through the Marketplaces on each business day (as defined for the purposes of each Origination Agreement).

Subject to the Allocation Limits, the borrowing limitation and the other limitations described below, the Company is obliged to invest in all Credit Assets allocated to the Company without resulting in a breach of the Investment Policy (or any Portfolio Limits), in each case subject to the Group having sufficient Available Cash.

Indirect Investments

In addition to direct investments in Credit Assets the Company may, where the Board specifically determines and approves, invest indirectly in Credit Assets by means of the creation of, or participation in, securitisation or similar structures or instruments alongside third parties (which may include, without limitation, collective investment vehicles, institutional investors, commercial banks or supra-national agencies and government institutions).

The Board may determine to pursue indirect investment in Credit Assets for such reasons as it deems appropriate having regard to the Investment Objective. Indirect investment in Credit Assets may be undertaken by such means, and through investment in such instruments or securities, as the Board may approve. This may include (without limitation) the following techniques:

- The acquisition, alongside one or more third parties, of debt or equity securities of whatever type or class (including in junior tranches) issued by special purpose vehicles or issuers established by any person (including Funding Circle and/or its Affiliates) in respect of the securitisation of underlying Credit Assets which have not previously been funded or held by the Group.
- The securitisation by the Group of Credit Assets initially funded or held by the Group through the formation of a bankruptcy remote SPV and the issuance by the Group of certain asset backed securities secured on the assets within that SPV. Those asset backed securities may be acquired by one or more third parties, as well as by the Group which may acquire debt or equity securities of whatever type or class (including in junior tranches) so issued.

In either of the above scenarios, the relevant SPV used for securitisation will be ring-fenced from other SPVs or entities investing in or holding Credit Assets, and there will be no cross collateralisation between SPVs in which the Company invests.

STRATEGIC REPORT

Investment Policy (continued)

Indirect Investments (continued)

The Board will only approve the making of any indirect investment, however structured, if it is first satisfied that the making of such indirect investment will not result at the time of making the investment in a breach, on a ''look-through'' basis, of the Investment Policy (including the Allocation Limits, the borrowing limitation and the other restrictions described herein) or any Portfolio Limits.

Indirect investments proposed to be made by the Basinghall or Tallis will also require the approval of the relevant Board of those entities. Where indirect investment in Credit Assets is made alongside third party participants, such that the Company is not the sole (indirect) owner of the relevant Credit Assets, the Investment Policy and any Portfolio Limits will be applied to the relevant indirect investments on a pro rata basis, proportionate to the Company's indirect interest in the underlying Credit Assets. Investment in indirect investments is also subject to the Group having sufficient Available Cash.

As noted above, Funding Circle may (where it is lawfully able so to do) participate in the structuring, establishment and operation of vehicles established in connection with indirect investment in Credit Assets and may earn and retain remuneration or profits for performing any such role or service. It is anticipated that each relevant SPV will enter into service agreements with Funding Circle for the provision of services similar to those contemplated by the Servicing Agreements in the context of the Company's portfolio of Credit Assets.

Funding Circle does not currently arrange, advise on or manage any indirect investment in Credit Assets by the Group but the Board may agree (subject to applicable law and regulation at the time, and to any requirements of the Listing Rules including those governing related party transactions) to appoint Funding Circle to provide services in connection with indirect investments in future (where it is lawfully able to do so).

As at 31 March 2017, the Company holds indirect investments in loans through the following investing companies:

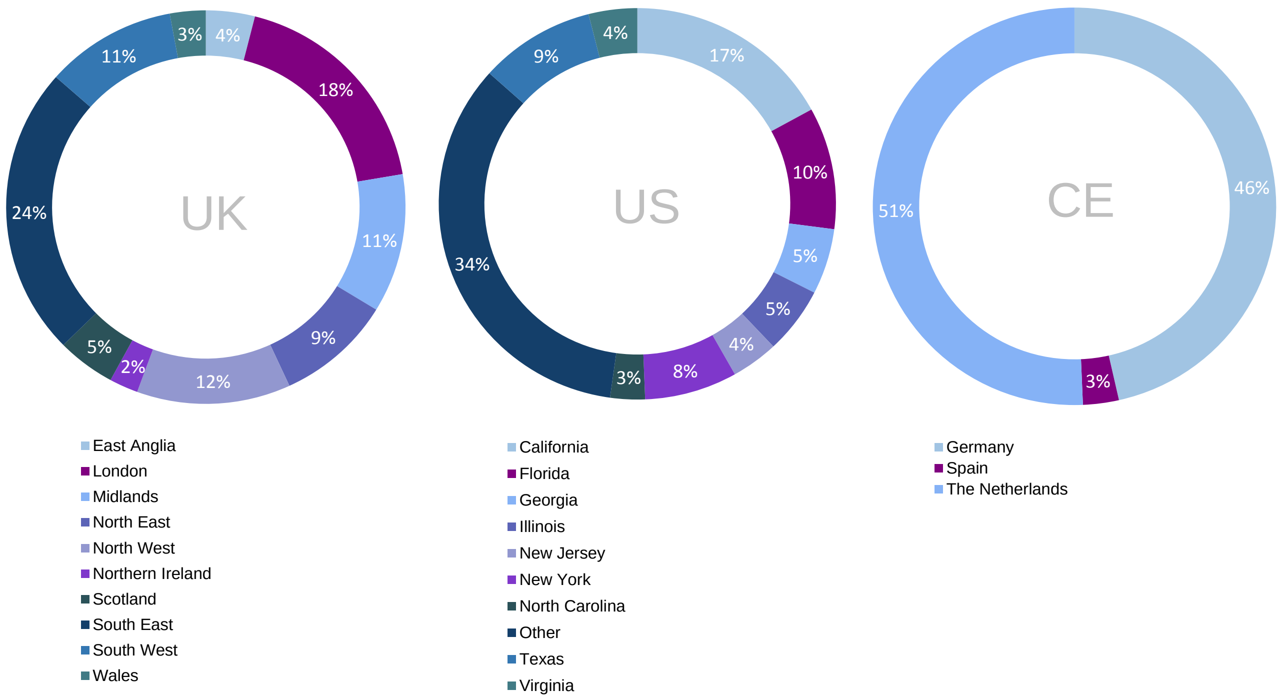
Investing Company	Jurisdiction
Basinghall	United Kingdom
Tallis	Spain*, Germany and the Netherlands
Irish SPV (structured finance transaction with the EIB)	United Kingdom

*From January 2017, Tallis discontinued further lending to Spain.

Allocation Limits and Other Limitations

The Company will invest in Credit Assets originated through the various Marketplaces in each case (whether directly or indirectly) subject to the Allocation Limits and other limitations described in Note 15.

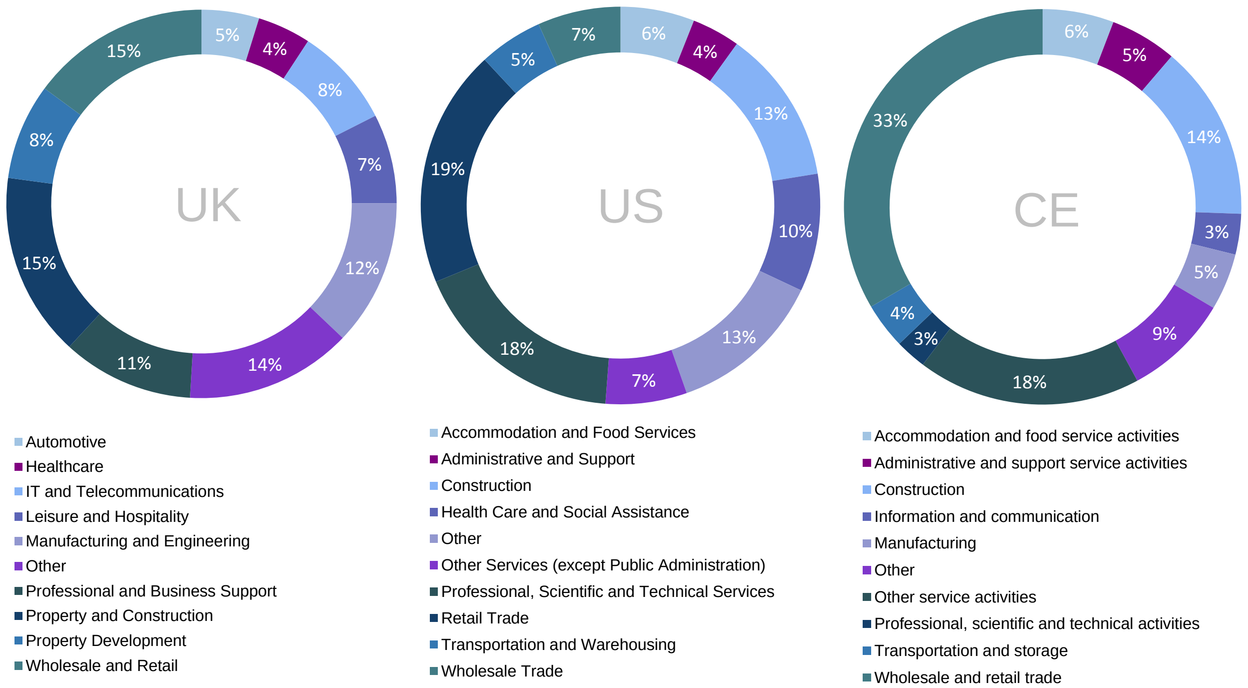
Loans by geographical region



STRATEGIC REPORT

Investment Policy (continued)

Loans by Industry Sector



Basinghall and Tallis have been formed solely in connection with the implementation of the investment policy of the Company.

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

The assets held by each of Basinghall and Tallis are ring-fenced from other entities or special purpose vehicles and there is no cross-collateralisation between special purpose vehicles in which the Company invests.

Borrowing Limitation

In pursuit of the investment objective, the Company may borrow or use leverage, and may guarantee the borrowings of its Affiliates and Near Affiliates. Such borrowings or leverage will be used for the acquisition (directly or indirectly) of Credit Assets in accordance with the Investment Policy, or for the re-financing of Credit Assets previously acquired (such that the Company will thereafter have an indirect exposure to such Credit Assets). Borrowing may be effected at the level of the Company or any of its Affiliates or Near Affiliates. In this regard, it should be noted that the Company may establish SPVs, whether as Affiliates, Near Affiliates or otherwise in connection with obtaining leverage against any of its assets or in connection with the securitisation of its Credit Assets. Such SPVs may be retained as Affiliates, but independently owned SPVs which are not Affiliates of the Company may be used to seek to protect the levered portfolio from group level bankruptcy or financing risks.

The aggregate leverage or borrowings of the Company, its Affiliates and any Near Affiliates (including Basinghall and/or Tallis) and guarantees of such borrowing or leverage by such person(s), shall not exceed (at the time the relevant indebtedness is incurred or guarantee given) 0.25 times the then current NAV, or up to 0.5 times the then current NAV with the specific further approval of the Board (which approval has been obtained). Notwithstanding the foregoing, no borrowing or debt financing arrangements made between or among any of the Company, any Affiliate of the Company or any Near Affiliate (including, without limitation, the borrowings of Basinghall and/or Tallis under the relevant note) shall count as borrowings, leverage or guarantees by any such person for the purposes of the foregoing limit.

There will be no obligation to alter the Company’s (or any other relevant person’s) borrowing or guarantee arrangements as a result of any subsequent variation in NAV. The Company may also, in connection with seeking such leverage or securitising Credit Assets, seek to assign existing assets to one or more SPVs and/or seek to acquire loans using an SPV.

The Company, its Affiliates or its Near Affiliates may employ leverage by borrowing funds from brokerage firms, banks and other financial institutions and/or through the use of derivatives and other non-fully funded instruments. Leverage obtained through borrowing will be obtained from the relevant lender. Leverage obtained through the use of derivatives and other non-fully funded instruments is obtained from the relevant counterparty.

The Company does not currently grant any guarantee under any leveraging arrangement. The grant of any such guarantee will be disclosed to Shareholders in accordance with the AIFM Directive.

Investment Policy (continued)

Borrowing Limitation – (continued)

Save as described above, there are no restrictions on the use of leverage by the Company except for those imposed by applicable law, rules and/or regulations. Funding Circle UK shall (to the extent it may lawfully do so) negotiate and implement all borrowing on behalf of the Company, as contemplated by the Services Agreement (subject to the requirement for the specific approval of the Board in respect of borrowings in excess of 0.25 times the then current NAV, and the restrictions and requirements in respect of indirect investments as described above).

Uninvested Cash

The Company 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 securities 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 (which may or may not be registered in the EU).

Principal Risk and Risk Management

There are a number of actual and potential risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results.

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.

The Company established a risk matrix during the initial public offering process, consisting of the key risks and 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 assessment of the principal risks 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 will continue 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 challenges 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 15 of the consolidated financial statements.

Principal risk	**Mitigation and update of risk assessment**	**Company's financial KPI 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 Board has set portfolio limits and monitors information provided by the Administrator and Funding Circle on a regular basis. The impact of the uncertainties facing the UK and the EU as they enter negotiations over the United Kingdom's withdrawal from the European Union cannot be quantified. The Board has assessed that this risk may have been impacted but the magnitude and direction of the change is not clear at this stage. Economic uncertainties or developments including increases in interest rates may also impact upon default rates. Increases in interest rates is considered before Funding Circle offers loan facilities and all loans have a fixed interest rate.	Capital deployed Net return target Share price vs NAV per share Default rate

STRATEGIC REPORT

Principal Risk and Risk Management – (continued)

Principal risk	Mitigation and update of risk assessment	Company's financial KPI affected by risk
Insufficient loans originated The Group may not achieve its target return due to lack of or reduction to loans available for the Group to invest in. The Group is only able to acquire Credit Assets originated by the Marketplaces to the extent that a sufficient number of Credit Asset requests are received by the Marketplaces which satisfy the Marketplaces' credit processes.	The Board monitors deployment on a regular basis and is in close dialogue with Funding Circle. The risk remains unchanged during the year.	Capital deployed Net return target

In addition to the principal 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 objectives successfully. The Board receives and reviews 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 the Company acquiring 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.

Risk models

The Company may invest (directly or indirectly) in Credit Assets originated on the Marketplaces based upon inaccurate borrower credit information. Additionally, the interest rate for a Credit Asset may not be reflective of its risk profile, which may result in lower returns than might be expected in relation to the actual credit risk which is borne by the Company.

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 ended 31 March 2017, 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. 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 established.

Financial Performance

The Board has continued to focus on delivering on the targets set out in the Company's Prospectus during the year. Following the successful admission of the Company's shares to trading on the Main Market of the London Stock Exchange at IPO, deployment of capital raised in that process in accordance with the Company's investment policy has been completed. In line with the Group's investment strategy, the Company participated in a structured finance transaction with the EIB during the year and has now fully deployed the funds raised through direct and indirect investment in loans.

STRATEGIC REPORT

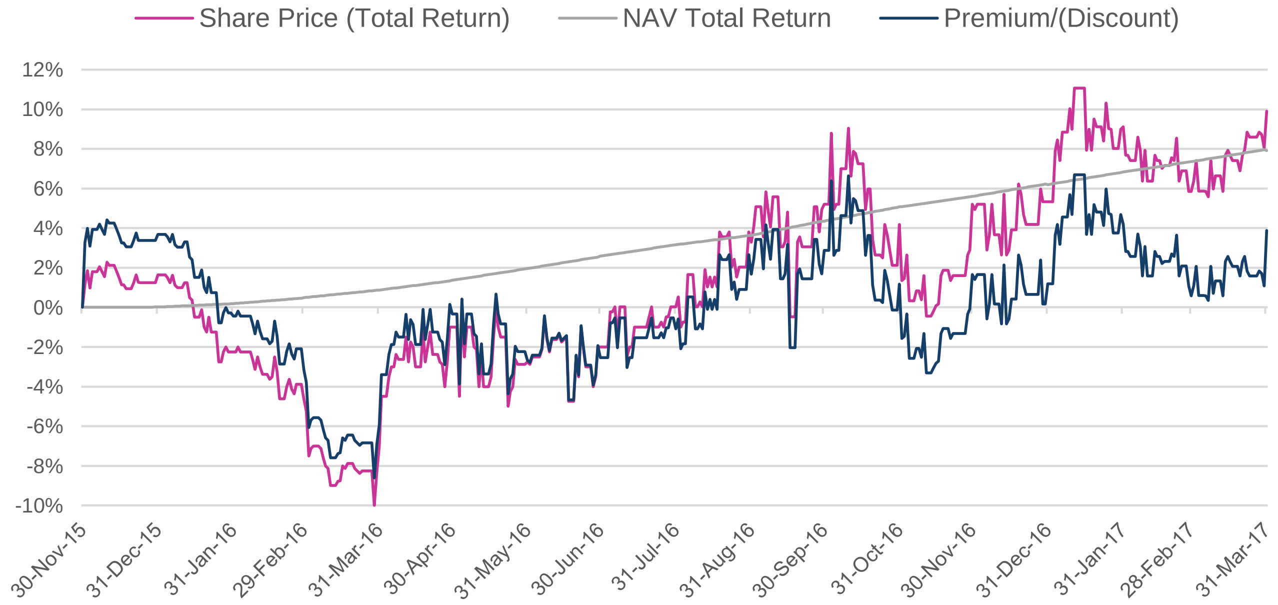
Financial Performance – (continued)

The Board considers the following as the key performance indicators of the Group's financial performance:

- Total return on share price
- Total return on NAV per share
- Share price premium or discount to NAV
- Capital deployed
- Dividend per share
- Credit losses

A review of the key metrics utilised by the Board to measure and monitor the performance of the Company are summarised below.

Total return and share price premium/(discount)



Capital deployed

As at 31 March 2017, the Company had deployed 96% of the issued capital in direct and indirect loans to SMEs in the US, UK and CE. These were funds raised from the IPO dated 30 November 2015 funds raised from the additional shares issued on 25 July 2016 and scrip dividends during the year.

In accordance with the Company's investment policy, the Company will hold sufficient cash for working capital purposes.

In respect of the EIB Transaction, the Group's indirect investment in loans within the unconsolidated Irish domiciled SPV has been included in the below asset allocation as if the loans were held directly by the Group.

Dividend per share

The Company aims to provide investors with an annual dividend of between 6 pence to 7 pence per Ordinary Share once the Company's portfolio is fully deployed. The Company has generated positive net returns on capital invested since inception of its lending activity soon after the IPO on 30 November 2015 and further capital raised as above. The Company's performance to the date of this report and the projected earnings in the next twelve months enabled the Board to declare interim dividends totalling 5.875 pence per Ordinary Share during the year. The first interim dividend declared on 17 June 2016 was 1 pence per Ordinary Share, which exceeded the 0.75 pence expected at IPO.

After the financial year-end, the Company declared a dividend of 1.625 pence per Ordinary share

Financial Performance – (continued)

Credit losses

The Board carefully monitors the level of defaults arising within the Group's portfolio. As the Group's portfolio ramps up and matures, an increase in credit losses is to be expected. The credit loss provision as at 31 March 2017 was £3.2m against an outstanding principal and interest amounts of the loan portfolio of £156m (31 March 2016: provision of £0.03m against an outstanding principal and interest amounts of the loan portfolio of £95m) which is in line with expectations.

Viability Statement

In accordance with the relevant codes, the Directors have assessed the prospects of the Company over a three year period. The Directors believe this period to be appropriate because it reflects the weighted average life of the loans advanced by the Company to SMEs.

In their assessment of the viability of the Company, the Directors have considered each of the principal risks and uncertainties listed on pages 8 and 9. The Board believes that the primary 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
- Insufficient loans originated.

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 Company maintains a risk register to identify, monitor and control risk concentration. In addition, overall credit and economic conditions are monitored to provide insight with respect to potential warnings on adverse changes at a macroeconomic level. In particular, the Directors highlight the uncertainties facing the UK and the EU as they enter negotiations over the United Kingdom's withdrawal from the European Union and the impact these may have on defaults within the Group's existing loan portfolio as well as on the Group's ability to originate new loans.

Based on the Directors' evaluation of the Company's current position and the results of the stress test performed on the base assumptions used for their viability assessment, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three year period.

Employees, Social, Human Rights and Environmental Issues

The Company has no employees and the Board comprises five Directors, all of whom, except Sachin Patel (appointed on 18 May 2017), are non-executive and 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 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. However, the Company believes that high standards of corporate social responsibility ("CSR") such as the recycling of paper waste will support its strategy and make good business sense.

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

Gender Diversity

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 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 with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside appropriate skills, experience and expertise.

DIRECTORS' REPORT

The Directors present their annual report and audited consolidated financial statements for the year ended 31 March 2017. 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. The primary activity of the Company is 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.

Results and dividends

The total comprehensive income for the year, determined under International Financial Reporting Standards ("IFRS"), amounted to £11.1 million. The Directors consider the declaration of a dividend on a quarterly basis. 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). Dividends declared during the year are disclosed in note 12 of the annual financial statements.

Business review

The Company's Ordinary Shares commenced trading on 30 November 2015 after successfully completing the admission of 150 million Ordinary Shares to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange plc's Main Market.

In June 2016, the Company participated in a structured finance transaction with the EIB. The transaction involved the set-up of an Irish SPV. The Company invested £25 million into the Class B Note issued by the Irish SPV whilst the EIB has committed to invest up to £100 million in a senior loan to the Irish SPV.

On 20 July 2016, the Company issued a further 14,285,000 Ordinary Shares at a price of £1.0153 per Ordinary Share raising net proceeds of £14,213,490 after direct issue costs of £290,071.

In February 2017, the Company issued an updated prospectus which established a programme by which the Directors are able to issue up to 500 million ordinary shares and/or C shares in aggregate. In April 2017, the Company issued 142 million C Shares at a price of £1 per C Share raising net proceeds of £139,870,000 after direct issue costs of £2,130,000.

The Strategic Report set out on pages 5 to 11 includes further information about the Company's principal activities, financial performance during the year and indications of likely future developments.

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 purpose of the AIFMD and therefore has to comply with the disclosure requirements of the AIFMD.

The Company's Prospectus (both the original Prospectus issued in connection with Admission and the updated Prospectus issued and published on 6 February 2017) contained a schedule of disclosures prepared by the Directors for the purposes of AIFMD. In addition, the AIFMD requires the Company's annual report to include details of any material changes to the information contained in that schedule. The Directors confirm that no material changes have occurred in relation to the information contained in the schedule.

In making this confirmation, 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 well as with due regard to the Company's investment restrictions set out in the Company's Prospectus. 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.

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.

DIRECTORS' 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 taking place in 2017.

Going concern

The Directors have considered the financial performance of the Group and the impact of the market conditions at the financial year-end date and subsequently. During the financial year the Group's NAV rose (prior to the declaration and payment of interim dividends) by £11.08 million or approximately 7.1%. The Company's current cash holdings and projected cash flows are sufficient to cover current liabilities and projected liabilities. The Directors are therefore of the opinion that the Company and Group are a going concern and the financial statements have been prepared on this basis.

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	Date of resignation
Frederic Hervouet	12 August 2015	
Jonathan Bridel	19 August 2015	
Richard Boléat	19 August 2015	
Richard Burwood	12 August 2015	
Samir Desai	19 August 2015	18 May 2017
Sachin Patel	18 May 2017	

Sachin Patel was appointed as Director on 18 May 2017. Sachin Patel is the Chief Capital Officer at Funding Circle, leads the Global Capital Markets group and is responsible for investor strategy. With effect from 31 May 2017, Phillip Hyett, who is a director of Capital Markets at Funding Circle was approved to act as alternate director for Sachin Patel.

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 52 to 53.

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 2017, the Directors held the following Ordinary Shares of the Company:

	Number of shares	
	2017	**2016**
Frederic Hervouet	107,000	5,000
Jonathan Bridel	5,000	5,000
Richard Boléat	5,000	5,000
Richard Burwood	5,000	5,000
Samir Desai	148,138	148,138
Sachin Patel	—	—
	270,138	**168,138**

DIRECTORS' REPORT

Directors' shares and interests – (continued)

During the year, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment), except for Mr Desai who is a substantial shareholder in, director of and an employee of Funding Circle Limited which provides loan origination and servicing services to the Company. Mr Desai resigned as director subsequent to the year-end on 18 May 2017.

Substantial shareholdings

As at 31 March 2017, 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
Invesco Limited	48,131,639	29.18
Railway Pension Trustee Company Limited	33,258,275	20.16
Aberdeen Asset Management Limited	18,214,596	11.04
SG Hambros Bank Limited	15,317,886	9.29

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.

Acquisition of Company's own shares

The Company has not bought any of its Ordinary Shares during the year.

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.	Samir Desai (resigned on 18 May 2017) has waived his remuneration – please refer to page 22 in the Directors' Remuneration Report. Sachin Patel who was appointed as a director of the Company after the year-end 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.	Samir Desai (resigned on 18 May 2017) is a substantial shareholder in, and a director and employee of, Funding Circle Limited. Richard Burwood is a Director of Basinghall and Tallis. Sachin Patel (appointed on 18 May 2017) is an employee of Funding Circle Limited. Phillip Hyett is an employee of Funding Circle Limited.
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.

DIRECTORS' REPORT

Disclosure of information to the Auditors

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 Auditors are 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 Auditors are aware of that information.

Auditor

PricewaterhouseCoopers CI LLP ("PwC") served as auditor during the financial year and have expressed their willingness to continue in office. A resolution to re-appoint PwC as auditors will be put to the forthcoming 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 auditors does not involve consideration of these matters and accordingly, the auditors accept 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 Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey GY1 1WG, Channel Islands.

By order of the Board

Authorised Signatory
Sanne Group (Guernsey) Limited, Company Secretary

CORPORATE GOVERNANCE REPORT

The Company became a member of the Association of Investment Companies ("AIC") in November 2015 and has applied the AIC Code from that date.

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 2017 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 Samir Desai (resigned on 18 May 2017) and Sachin Patel (appointed on 18 May 2017) who are employees 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 52 to 53 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 Company does not have a policy on length of service of Directors. In view of the long-term nature of the Company's investments, the Board believes that a stable board composition is fundamental to the proper operation of the Company. 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 Samir Desai (resigned on 18 May 2017) and Sachin Patel (appointed on 18 May 2017) 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

At each Annual General Meeting of the Company any Director who has been appointed pursuant to a nomination from Funding Circle UK, and any other Director for whom it is the second Annual General Meeting following the Annual General Meeting at which he was elected or last re-elected, shall retire from office but, subject to the Articles, shall be eligible for re-appointment. At the second Annual General Meeting of the Company, all directors will be standing for re-election.

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 Samir Desai (resigned on 18 May 2017) and Sachin Patel (appointed on 18 May 2017) 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 auditors may report to the Board. The Audit Committee reviews and recommends to the Board the adoption and approval of the annual and half yearly financial statements, results, internal control systems and procedures and accounting policies of the Company.

Risk Committee

The Company has established a risk committee, which will comprise all of the Directors, of which Frederic Hervouet is chairman. The risk committee meets approximately four times a year or more often if required. The risk committee will take 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 all of the Directors except for Samir Desai (resigned on 18 May 2017) and Sachin Patel (appointed on 18 May 2017). 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 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 association;
- 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 12 Board meetings held during the financial year ended 31 March 2017. The attendance record of each of the Directors was as follows:

	Number of attendances during the year
Frederic Hervouet	11
Jonathan Bridel	12
Richard Boléat	10
Richard Burwood	12
Samir Desai	8

There were 5 Risk Committee meetings, 3 Audit Committee meetings, 1 Management Engagement meeting and 2 Remuneration and Nominations Committee meetings held during the financial year ended 31 March 2017. 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	3	5	1	2
Jonathan Bridel	3	5	1	2
Richard Boléat	3	4	1	2
Richard Burwood	3	5	1	2
Samir Desai	N/A	4	N/A	2

CORPORATE GOVERNANCE REPORT

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.

The Directors may delegate certain functions to other parties such as Funding Circle UK, Funding Circle US, Funding Circle CE, the Administrator and other service providers. In particular, the Directors have appointed Funding Circle UK, Funding Circle US and Funding Circle CE to originate and service the Company's investments in loans. 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 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. The notice of the AGM, which is sent out at least twenty 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:

Ritchie Oriol
Tel: +44 (0) 20 3667 2242
Email: ir@fcincomefund.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@fcincomefund.com

Sanne Group (Guernsey) Limited
Tel: +44 (0) 1481 739 810
Email: FundingCircle@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 including the adequacy of related disclosures, the performance of the external auditors 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 auditors;
- agreeing with the external auditors the audit plan including discussions on the key risk areas within the financial statements;
- considering the financial and other implications on the independence of the auditors arising from any non-audit services to be provided by the auditors; and
- considering the appropriateness of appointing the auditors 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 qualification of the members of the committee are noted in the biographies section on pages 52 and 53.

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 auditors, PricewaterhouseCoopers CI LLP ("PwC"), are 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 auditors and considers the appointment of external auditors, discusses with the external auditors 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 auditors. The Committee also considers the objectivity of the auditors and reviews the external auditors' 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 Auditors the appropriateness of the half-year and annual 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 implication of IFRS 9;
- Material areas in which significant judgments have been applied or where there has been discussion with the external auditors;
- 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 financial statements for the year ended 31 March 2017, the following significant risks were considered by the Audit Committee:

- **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 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 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 has received a report from the Administrator that shows a comparison of the income recognised using the Funding Circle platform data to the revenue recognition requirements of IFRS. 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.

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 8 and 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 2017 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 2017 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 auditors 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 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 2017, 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 auditors are 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. In its assessment of the independence of the auditors, 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 2017 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 auditors 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 auditors' objectivity. The auditors (and their affiliated network firms) were remunerated £184,309 (2016: £110,315) for their audit and non audit services rendered for the year ended 31 March 2017. 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 2017:

	1 April 2016 to 31 March 2017		**22 July 2015 to 31 March 2016**	
Type of service	**PwC CI**	**PwC Ireland**	**PwC CI**	**PwC Ireland**
	£	**£**	**£**	**£**
Audit of the Group	107,564	30,763	60,000	28,515
Review of half yearly financial statements	20,000	—	—	—
Tax compliance review	—	10,981	6,750	15,050
Transaction related services	15,000	—	100,000	—
	142,564	**41,744**	**166,750**	**43,565**

The Committee is satisfied with the effectiveness of the audit provided by PwC, and is satisfied with the auditors' independence. The Committee has therefore recommended to the Board that PwC be reappointed as external auditors for the year ending 31 March 2018, and to authorise the Directors to determine their remuneration and terms of engagement. Accordingly a resolution proposing the reappointment of PwC as auditors will be put to the shareholders at the 2017 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
13 July 2017

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 association;
- 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 marketplace.

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	**40,000	Chairman of the Management Engagement Committee
Sachin Patel***	—	Waived annual Director's fee
	170,000	

** - The annual fee for Frederic Hervouet was increased from £35,000 to £40,000 with effect from 1 January 2017.*

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

**** - Sachin Patel was appointed on 18 May 2017. Samir Desai who was a director up to 18 May 2017 also waived his entitlement to a director's fee for the period of his directorship.*

The Directors are not be 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.

DIRECTORS' REMUNERATION REPORT

Remuneration Policy (continued)

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.

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 2017 was as follows:

	31 March 2017	**31 March 2016**
	£	**£**
Frederic Hervouet	56,250	21,635
Jonathan Bridel	60,000	24,674
Richard Boléat	70,696	32,010
Richard Burwood	65,019	22,271
Samir Desai (resigned on 18 May 2017)*	—	—
Sachin Patel (appointed on 18 May 2017)*	—	—
	251,965	**100,590**

**Director's fee waived*

All the Directors, with the exception of Samir Desai (resigned on 18 May 2017), received £10,000 each as one-off fees for services in connection with the issue of a new prospectus and associated matters during the year and a further £10,000 each as one-off fees in relation to their work on the EIB transaction. Richard Burwood also received a one-off fee of £5,000 during the year for additional work carried out for the Management Engagement Committee.

Richard Burwood is also a Director of Basinghall and Tallis. The total remuneration to Richard Burwood disclosed in the above table includes £10,018 (2016: £9,185) representing Director's fees charged to Basinghall and Tallis. 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 2017 each of Richard Boléat, Jonathan Bridel, and Richard Burwood has a share interest in the Company, in the form of 5,000 (2016: 5,000) Ordinary Shares, representing 0.0031% interest in voting rights. Samir Desai (resigned on 18 May 2017) and Frederic Hervouet have a share interest in the Company in the form of 148,138 (2016: 148,138) and 107,000 (2016: 5,000) Ordinary Shares, representing 0.0927% and 0.0669%, respectively in the voting rights as at 31 March 2017. There have been no changes to the shares held by the Directors up to the date of this report.

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 Association. The Company welcomes any views the shareholders may have on its remuneration policy.

Richard Boléat
Chairman of the Remuneration and Nominations Committee
13 July 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report and the 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 financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The 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 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 financial statements; and
- Prepare the 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 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 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 financial statements, prepared in accordance with IFRS adopted by the IASB and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), give a true and fair view of the assets, liabilities, financial position and results of the Group; and
- The annual report and 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***
13 July 2017	13 July 2017

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF FUNDING CIRCLE SME INCOME 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 Funding Circle SME Income Fund Limited (the "Company") and its subsidiaries (together the "Group") as at 31 March 2017, 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 2017;
- 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 summary of 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.

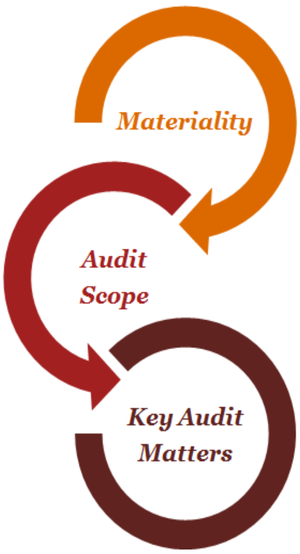
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



Materiality

- Overall materiality was £3.7 million which represents 2.25% of consolidated net assets

Audit scope

- The Company is based in Guernsey with underlying 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 the underlying subsidiaries.
- We conducted our audit of the consolidated financial statements from 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

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 two underlying subsidiaries located in Ireland. The consolidated financial statements are a consolidation of the Company and both 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. Both 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 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 financial statements as a whole.

Overall Group materiality	£3,700,000
How we determined it	2.25% of consolidated net assets
Rationale for the materiality benchmark	We believe consolidated net assets to be the appropriate basis for determining materiality since this is a key consideration for investors when assessing financial performance. 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 £185,000, 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 of loans advanced Refer to note 2d *Use of estimates and judgements*, note 3b *Significant accounting policies* and note 4 *Loans advanced*. Loans advanced are recorded at amortised cost in the Consolidated Statement of Financial Position and amounted to £155.9m as at 31 March 2017. This amount is net of an impairment allowance and loans written-off of £3.3m (refer to note 4 *Loans advanced*). The impairment assessment requires estimates and significant judgements to be applied. Changes to the key inputs of the estimates and judgements can result in a material change to the carrying value of loans advanced.	We understood and assessed the methodology and assumptions applied by the Group in determining the amortised cost of loans and receivables, by reference to accounting standards and industry practice. We tested the techniques used in determining the carrying value of loans advanced measured in accordance with amortised cost and the recognition of any impairment allowance. 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 maturity, and agreeing to the legal loan documentation on a sample basis; • obtaining management's impairment reviews for the loan portfolios and assessing whether any indicators of impairment existed at the year-end, including testing a sample of loans to confirm where payments of principle and interest were overdue; • obtaining supporting analysis for the assumptions used in management's impairment review which were derived from historical data and the performance of the Group's loan portfolios; • testing the calculation of the impairment allowance by re-performing the calculation using the loan inputs and management's impairment assumptions; • we also performed the above procedures in relation to the Class B Note, and the underlying loan portfolio which determines the returns of the Class B Note, to test its carrying value in accordance with amortised cost; and • reviewing the underlying legal agreements of the Class B Note which detail the loan terms to assess whether any indicators of impairment existed at the year-end. We found that the recording of loans advanced at amortised cost was consistent with the Group's accounting policies and that the assumptions used to calculate the impairment allowance were supported by appropriate evidence.

Other information

The directors are responsible for the other information. The other information comprises the Summary Information, the Chairman's Statement, the Strategic Report, the Directors' Report, the Corporate Governance Report, the Audit Committee Report, the Directors' Remuneration Report, the Statement of Directors' Responsibilities, the Board of Directors, the Agents and Advisors and the Glossary (but does not include the consolidated financial statements and our auditor's report thereon).

Other than as specified in our report, 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 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 relating 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.

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. 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.

Auditor's responsibilities for the audit of the consolidated financial statements – (continued)

- 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.

Report on other legal and regulatory requirements

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.
- we have nothing to report in respect of the following matters which we have reviewed:
- the directors' statement set out on page 13 in relation to going concern. As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern;
- the directors' statement that they have carried out a robust assessment of the principal 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 UK Corporate Governance Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit; and
- the part of the Corporate Governance Statement relating to the Group's compliance with the ten further provisions of the UK Corporate Governance Code specified for our review.

This report, including the opinion, 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 this opinion, 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.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	1 April 2016 to 31 March 2017	22 July 2015 (date of incorporation) to 31 March 2016 £
Operating income			
Interest income on loans advanced	4	17,326,262	1,864,930
Bank interest income		18,695	120,701
		17,344,957	1,985,631
Operating expenditure			
Net realised and unrealised loss on foreign exchange	15	196,849	18,768
Loan servicing fees	14	1,212,411	170,381
Audit, audit-related and non-audit related fees		184,309	110,315
Directors' remuneration and expenses	13	258,410	103,239
Legal fees		366,442	99,820
Company administration and secretarial fees	14	224,985	92,767
Unrealised fair value movement on currency derivatives	7	—	2,432
Impairment of loans	4	3,282,919	30,192
Corporate services fees		145,670	—
Regulatory fees		60,590	13,157
Corporate broker services		68,003	12,326
Other operating expenses		263,357	55,617
		6,263,945	709,014
Operating profit for the year before taxation		11,081,012	1,276,617
Taxation	10	(500)	—
Total comprehensive income for the year/period		**11,080,512**	**1,276,617**
Earnings per share			
Basic and diluted	11	6.93p	0.85p

		Number of shares	Number of shares
Weighted average number of shares outstanding			
Basic and diluted	11	159,874,926	150,000,000

Other comprehensive income

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

The Notes on pages 34 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2017

	Notes	2017 £	2016 £
ASSETS			
Cash and cash equivalents	6	12,331,519	56,757,244
Margin account held with bank	7	270,000	610,000
Other receivables and prepayments		371,919	225,683
Fair value of currency derivatives	7	239,253	—
Loans advanced	4	155,881,911	94,764,065
TOTAL ASSETS		**169,094,602**	**152,356,992**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9	161,916,399	147,000,000
Retained earnings		2,835,892	1,276,617
TOTAL SHAREHOLDERS' EQUITY		**164,752,291**	**148,276,617**
LIABILITIES			
Fair value of currency derivatives	7	—	2,432
Accrued expenses and other liabilities	8	4,342,311	4,077,943
TOTAL LIABILITIES		**4,342,311**	**4,080,375**
TOTAL EQUITY AND LIABILITIES		**169,094,602**	**152,356,992**
NAV per share outstanding			
Basic and diluted		**99.87p**	**98.85p**

The financial statements on pages 30 to 51 were approved and authorised for issue by the Board of Directors on 13 July 2017 and were signed on its behalf by:

Richard Boléat
Chairman

Jonathan Bridel
Chairman of the Audit Committee

The Notes on pages 34 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	Share capital £	Retained earnings £	Total £
Balance at 1 April 2016		147,000,000	1,276,617	148,276,617
Issue of Ordinary Shares	9	14,503,561	—	14,503,561
Ordinary Shares issue costs	9	(290,071)	—	(290,071)
Scrip dividends issued	9,12	702,909	—	702,909
Dividends declared	12	—	(9,521,237)	(9,521,237)
Total comprehensive income for the year		—	11,080,512	11,080,512
Balance at 31 March 2017		**161,916,399**	**2,835,892**	**164,752,291**
Balance at 22 July 2015 (date of incorporation)		—	—	—
Issue of Ordinary Shares	9	150,000,000	—	150,000,000
Ordinary Shares issue costs	9	(3,000,000)	—	(3,000,000)
Total comprehensive income for the period		—	1,276,617	1,276,617
Balance at 31 March 2016		**147,000,000**	**1,276,617**	**148,276,617**

The Notes on pages 34 to 51 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	1 April 2016 to 31 March 2017 £	22 July 2015 (date of incorporation) to 31 March 2016 £
Operating activities			
Total comprehensive income for the year/period		11,080,512	1,276,617
Adjustments for:			
Tax expense		500	—
Interest income on loans advanced		(17,326,262)	(1,864,930)
Net foreign currency gain	15	(6,160,023)	—
Impairment of loans	4	3,282,919	30,192
Fair value movement of currency derivatives	7	(241,685)	2,432
Operating cash flows before movements in working capital		(9,364,039)	(555,689)
Loans advanced	4	(112,660,710)	(95,380,470)
Principal and interest collections on loans advanced	4	67,311,190	6,236,746
Increase in other receivables and prepayments		(146,236)	(225,683)
Increase in accrued expenses and other liabilities		85,031	292,340
Decrease/(increase) in collateral for currency derivatives	7	340,000	(610,000)
Net cash used in operating activities		(54,434,764)	(90,242,756)
Financing activities			
Proceeds from issue of Ordinary Shares	9	14,503,561	147,450,000
Initial costs of issue of Ordinary Shares	9	(290,071)	(450,000)
Dividends paid		(6,137,564)	—
Net cash from financing activities		8,075,926	147,000,000
Net (decrease)/increase in cash and cash equivalents		(46,358,838)	56,757,244
Cash and cash equivalents at the beginning of the year/period		56,757,244	—
Foreign exchange gain on cash and cash equivalents		1,933,113	—
Cash and cash equivalents at the end of the year/period		**12,331,519**	**56,757,244**

The Notes on pages 34 to 51 form part of these 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 its Ordinary Shares are listed on the premium segment of the London Stock Exchange's Main Market for listed securities. 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 Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey GY1 1WG, Channel Islands.

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

The Company publishes monthly net asset value statements.

2. BASIS OF PREPARATION

a) Statement of compliance

The 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 Standards 1, Presentation of Financial Statements.

New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") not yet adopted

In the Directors' opinion, except for the standards referred to below, 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.

IFRS 9 - "Financial Instruments" (Replacement of IAS 39 - "Financial Instruments: Recognition and Measurement") – effective for accounting periods beginning on or after 1 January 2018.

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.

IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model in the measurement of impairment loss. The new model applies to financial assets that are not measured at fair value through profit or loss.

The mandatory effective date for application of IFRS 9 is for accounting periods beginning on or after 1 January 2018. The Directors are still evaluating the impact of IFRS 9 on the Group. However, it is expected that the measurement of the amortised cost amount of the loan portfolio will involve increased complexity and judgement including assessment of change in credit risk and estimation of expected credit loss.

IAS 7, "Statement of Cash Flows" (amendments) – effective retrospectively for accounting periods commencing on or after 1 January 2017 (early adoption is permitted)

IAS 7 has been amended to improve disclosure on an entity's liabilities. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

b) Basis of measurement and consolidation

These financial statements have been prepared on a historical cost basis, as modified by the valuation of derivative financial instruments at fair value. The methods used to measure fair value are further disclosed in Note 15.

2. Basis OF PREPARATION – (CONTINUED)

b) Basis of measurement and consolidation – (continued)

The Company owns all the Profit Participating Notes issued by Basinghall Lending Designated Activity Company ("Basinghall") and Tallis Lending Designated Activity Company ("Tallis"), companies incorporated in the Republic of Ireland. The Directors believe that the Company's ownership of the Profit Participating Notes constitute control as it exposes the Company to variability of returns from its involvement with the financial and operating activities of Basinghall and Tallis. 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 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 Company. In the Directors' opinion, the Pound Sterling is the functional currency of the Company and Basinghall 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 the 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 on a quarterly basis. 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 financial statements are included in the following:

- 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 in determining the present value of the expected future cash flows after an impairment trigger has been identified. In relation to the investment in the Class B Note issued by an Irish SPV (see note 4), the receipt of and estimated timing of scheduled and unscheduled repayments of loans advanced in the Irish SPV and the impact on the carrying value and interest income of the Class B Note.
- Note 3(j) – The Directors assessed whether the Group had a single operating segment based on its business model (origination of loans) or several operating segments based on the jurisdictions where loans are 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 15 – The estimation of fair values of the Group's loans and receivables require estimation of revised cash flows and judgement on the appropriate market interest rate to apply. The Directors considered that a discounted cash flow model using appropriate market interest rates at the reporting date would not result in any material difference to the amortised cost amount reported on the Statement of Financial Position.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

b) Financial instruments

i) 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.

ii) Impairment of financial assets

The Directors assess at each reporting date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that a financial asset is impaired. Evidence of impairment may include indications that a borrower is experiencing significant financial difficulty, default or delinquency in interest and/or principal payments or restructuring of debt to reduce the burden on the borrower.

If there is no objective evidence of impairment for an individually assessed asset it is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment.

Impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The methodology and assumptions used for estimating future cash flows and impairment rates are reviewed by the Board on a quarterly basis.

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 against 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.

iii) 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 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.

iv) Offsetting 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.

c) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with 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 12.

e) 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, please see Note 11.

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

f) 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.

g) Expenses and fees

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

h) 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 and Tallis 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 and Tallis 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 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.

i) 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).

j) 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. In the financial statements for the period ended 31 March 2016, the Directors reported the Group as a single operating segment engaged in the activity of making loans. During the year ended 31 March 2017, the Directors increased their use of financial information for each jurisdiction where the loans were originated from. Although this has not resulted in a change to the allocation limits as set out in the Company's Prospectus, the Directors will continue to monitor financial information for each jurisdiction and will ensure this financial information is considered when decisions of how to allocate the resources of the Group are being made. Accordingly, the Directors have reconsidered the business segments of the Group based on the jurisdiction where the loans are originated from. The Directors decided to change their reporting to reflect three operating segments: UK, US and Continental Europe.

4. LOANS ADVANCED

	31 March 2017	31 March 2016
	£	£
Balance at the beginning of the year	94,764,065	—
Advanced	110,193,869	99,166,073
Interest income	17,326,262	1,864,930
Principal and interest collections	(67,345,776)	(6,236,746)
Impairment allowance	(3,282,919)	(30,192)
Foreign exchange gains	4,226,410	-
Balance at the end of the year	**155,881,911**	**94,764,065**

The Group predominantly makes unsecured loans. As at 31 March 2017, the carrying value of loans secured by charges over properties is £14,815,953 (March 2016: £12,075,105).

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.

The ageing analysis of the past due receivables along with the amount recognised as an impairment allowance are as follows:

	As at 31 March 2017		As at 31 March 2016	
	Principal and interest	Impairment allowance	Principal and interest	Impairment allowance
Past due between 30 days and 60 days	711,376	255,566	43,970	9,998
Past due between 61 days to 90 days	263,985	164,067	—	—
Past due for over 90 days	19,353	11,999	—	—
Defaulted (net of recoveries)	3,727,505	2,881,479	20,194	20,194
	4,722,219	**3,313,111**	**64,164**	**30,192**

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

	£
Impairment allowance as at beginning of the year	30,192
Additional impairment allowance	3,282,919
Impairment allowance at the end of the year	**3,313,111**

Structured Finance Transaction

In June 2016, the Company participated in a structured finance transaction with the EIB, involving the set-up of an Irish domiciled SPV. The Company invested £25 million into the Irish SPV whilst the EIB committed to invest up to £100 million in a senior loan to the Irish SPV. The loan has been accounted for as a loans and receivables measured at amortised cost using the effective interest rate basis. The underlying assets of the Irish SPV are loans to UK SME which were originated through the UK Marketplace.

The settlement of the Company's investment into the structured finance transaction was completed through a Netting Agreement between the Company, Basinghall and the Irish SPV. The key terms of the Netting Agreement are:

- The Company redeems £25,000,000 of the notes previously issued to it by Basinghall;
- Basinghall transfers a portfolio of loans with an amortised cost amount of £24,838,124 to the Irish SPV; and
- Basingall paid £161,876 cash to the Irish SPV.

The interest income earned on the structured finance transaction through the Irish SPV during the year was £4,139,377 (included in the total interest income within the Consolidated Statement of Comprehensive Income), of which £3,134,573 (included in loans advanced) was outstanding as at 31 March 2017.

5. 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 Group stopped lending to Spanish companies during the year.

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.

The Group's investment in the structured finance transaction in the Irish SPV generated interest income that exceeds 10% of the Group's total income. Except for this transaction, all of the Group's investments are loans to small and medium-sized entities ("SMEs"). Each individual SME loan does not generate income that exceeds 10% of the Group's total income.

The structured finance transaction in the Irish SPV 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 'Reconciling items' column.

Segment performance for the year ended 31 March 2017

	UK	**US**	**CE**	**Reconciling items**	**Consolidated**
	£	**£**	**£**	**£**	**£**
Total revenue	11,794,954	5,233,194	298,114	18,695	17,344,957
Profit/(loss) before tax	8,677,243	2,537,536	44,387	(178,154)	11,081,012

Segment assets and liabilities as at 31 March 2017

	UK	**US**	**CE**	**Reconciling items**	**Consolidated**
	£	**£**	**£**	**£**	**£**
Assets	111,142,766	42,909,326	8,152,819	6,889,691	169,094,602
Liabilities	(1,375,391)	(33,778)	(30,748)	(2,901,894)	(4,341,811)

Segment performance for the period ended 31 March 2016

	UK	**US**	**CE**	**Reconciling items**	**Consolidated**
	£	**£**	**£**	**£**	**£**
Total revenue	1,159,668	705,262	—	120,701	1,985,631
Profit before tax	713,127	652,032	(48,080)	(99,452)	1,276,617

Segment assets and liabilities as at 31 March 2016

	UK	**US**	**CE**	**Reconciling items**	**Consolidated**
	£	**£**	**£**	**£**	**£**
Assets	83,616,218	25,845,154	7,899,777	34,995,843	152,356,992
Liabilities	(3,862,750)	(11,452)	(27,043)	(179,130)	(4,080,375)

The Company is domiciled in Guernsey whilst Basinghall and Tallis are domiciled in Ireland. As disclosed in Note 4, the Company invested in a note issued by an Irish SPV. Details of the income earned during the year from this investment are disclosed in Note 4. All other income was earned from SME borrowers in the UK, US and CE.

6. CASH AND CASH EQUIVALENTS

	31 March 2017 £	31 March 2016 £
Cash at bank	4,548,149	22,483,253
Cash equivalents	7,783,370	34,273,991
Balance at the end of the year	**12,331,519**	**56,757,244**

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

7. 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 15). 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. Foreign exchange derivatives are entered into with Royal Bank of Scotland International ("RBSI"). During the year, the Group also entered into foreign exchange derivative contracts with Goldman Sachs International ("GS") with terms similar to those entered into with RBSI. The contracts with GS are collateralised by a cash deposit. During the year, the Group renegotiated the terms of the contract with RBSI such that no collateral is required on the initial transaction and in instances of temporary negative fair value positions.

(a) Margin accounts held at bank

	Fair value 31 March 2017 £	Fair value 31 March 2016 £
Margin account held with RBSI	—	610,000
Margin account held with GS	270,000	—
	270,000	**610,000**

(b) Fair value of currency derivatives

	Fair value 31 March 2017 £	Fair value 31 March 2016 £
Valuation of currency derivatives	239,253	(2,432)
	239,253	(2,432)

	Fair value 31 March 2017 (£)	Nominal of outstanding contracts 31 March 2017 (Currency)
Euro	(16,658)	6,415,686
USD	255,911	57,630,653
Total	**239,253**	

	Fair value 31 March 2016 (£)	Nominal of outstanding contracts 31 March 2016 (Currency)
Euro	(179,235)	10,005,000
USD	176,803	43,647,000
Fair value of currency derivatives	**(2,432)**	

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 March 2017	31 March 2016
	£	£
Dividends payable	2,680,764	—
Payable for loans committed but not yet funded	1,284,176	3,785,603
Service fees payable	104,773	65,635
Audit fees payable	128,831	110,315
Legal fees payable	54,724	95,165
Taxation payable	500	—
Other liabilities	88,543	21,225
	4,342,311	**4,077,943**

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.

9. SHARE CAPITAL

Issued and fully paid	**Number of shares**	**Ordinary shares issued value**	**Issue costs**	**Net Ordinary Shares value**
		£	**£**	**£**
At 31 March 2016	150,000,000	150,000,000	(3,000,000)	147,000,000
Issue of new shares	14,285,000	14,503,561	(290,071)	14,213,490
Scrip dividends	685,063	702,909	—	702,909
At 31 March 2017	**164,970,063**	**165,206,470**	**(3,290,071)**	**161,916,399**

On 20 July 2016, the Company issued 14,285,000 Ordinary Shares at a price of £1.0153 per ordinary share raising net proceeds of £14,213,490 after direct issue costs of £290,071.

Rights attaching to the shares

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 made or paid 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.

Rights attaching to C Shares Class

All shareholders of the same class have the same voting rights in respect of the share capital of the Company. The C Shares shall carry the right to receive notice of and to attend, speak and vote at any general meeting of the Company. The voting rights of holders of C Shares will be the same as those applying to holders of Ordinary Shares as set out in the Articles, as if the C Shares and Ordinary Shares were a single class.

Each class of C Shares shall carry the right to receive all income of the Company attributable to that class of C Shares and to participate in any distribution of such income.

The C Shares are issued on such terms that they shall be redeemable by the Company in accordance with the terms set out in the Articles.

10. TAXATION

	01 April 2016 to 31 March 2017	22 July 2015 to 31 March 2016
	£	£
Operating profit before taxation	11,081,012	1,276,617
Tax at the standard Guernsey income tax rate of 0%	—	—
Effects of tax rates in other jurisdictions	(500)	—
Taxation expense	**(500)**	**—**

The Group may be subject to taxation under the tax rules of the jurisdictions in which it invests. During the year ended 31 March 2017, Basinghall and Tallis which are consolidated into the Group's results were subject to a corporation tax rate of 25%.

11. EARNINGS PER SHARE ("EPS")

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

	31 March 2017	31 March 2016
	£	£
Profit for the purposes of basic and diluted EPS	11,080,512	1,276,617
Weighted average number of Ordinary Shares for the purposes of EPS:		
Basic and diluted	159,874,926	150,000,000
Basic and diluted EPS	**6.93p**	**0.85p**

12. DIVIDENDS

The following table shows a summary of dividends declared during the year;

	31 March 2017			
	Date declared	Ex-dividend date	Per share	Total
			Pence	£
Interim dividend	17 June 2016	30 June 2016	1	1,500,000
Interim dividend	14 September 2016	29 September 2016	1.625	2,669,623
Interim dividend	15 December 2016	29 December 2016	1.625	2,670,850
Interim dividend	15 March 2017	23 March 2017	1.625	2,680,764
Total			**5.875**	**9,521,237**

The Board offers shareholders a choice to receive dividends in cash or in shares via a scrip dividend. 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.

On 31 October 2016 the Company issued 75,698 Ordinary Shares at a reference share price of 103.45 pence per Ordinary Share, in relation to the scrip dividend option.

On 31 January 2017 the Company issued 609,365 Ordinary Shares at a reference price of 102.5 pence per Ordinary Share, in relation to the scrip dividend option.

On 2 May 2017 the Company issued 612,236 Ordinary Shares at a reference price of 102.675 pence per Ordinary Share, in relation to the scrip dividend option.

13. DIRECTORS' REMUNERATION AND EXPENSES

	1 April 2016 to 31 March 2017 £	22 July 2015 to 31 March 2016 £
Directors' fees	251,965	100,590
Directors' expenses	6,445	2,649
	258,410	**103,239**

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.

14. 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 Basinghall excluding any loans which have been charged off as defined in the Servicing Agreement. Servicing fees to Funding Circle UK of £770,131 were incurred during the year (period ended 31 March 2016: £117,151). Servicing fees outstanding as at 31 March 2017 were £66,085 (2016: £54,183).

Funding Circle UK 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 shall accrue from the date on which the Group has made investments in respect of loans in an amount equal to 80 per cent. of the gross issue proceeds of £150.0 million. During the year ended 31 March 2017, £145,670 was incurred under the Services Agreement.

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 £410,762 were incurred during the year (period ended 31 March 2016: £53,230). Servicing fees outstanding as at 31 March 2017 were £33,778 (2016: £11,452).

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.

14. FEES AND EXPENSES – (CONTINUED)

Loan origination and servicing – (continued)

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 £31,518 (period ended 31 March 2016: £nil). Servicing fees outstanding as at 31 March 2017 were £4,910 (2016: £nil).

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. No such additional fees were charged to the Group during the current year or the prior period.

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 will also act 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. Administration fees of £120,172 were incurred during the year (period ended 31 March 2016: £39,685). There were no administration fees outstanding as at 31 March 2017 and 31 March 2016.

Sanne Capital Markets Ireland Limited ("Sanne Ireland") has been appointed as Administrator to Basinghall and Tallis and is entitled to receive an annual fee for each entity of £45,000. Administration fees of £104,813 (including fees for additional work performed) were incurred during the year (period ended 31 March 2016: £53,082). There were no administration fees outstanding as at 31 March 2017 and 31 March 2016.

Registrar

Capita 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 per annum. Registrar service fees of £39,203 were incurred during the year (period ended 31 March 2016: £2,402). Registrar service fees outstanding as at 31 March 2017 amounted to £nil (2016: £700).

Currency management fee

Record Currency Management Limited has been appointed as currency manager. The currency manager is entitled to fees calculated based on the amount of US Dollar denominated exposure being hedged within the Group's portfolio. Fees of £35,661 were incurred during the year (period ended 31 March 2016: £7,801). Fees outstanding as at 31 March 2017 amounted to £nil (2016: £7,166).

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:

	1 April 2016 to 31 March 2017		**22 July 2015 to 31 March 2016**	
Type of service	**PwC CI**	**PwC Ireland**	**PwC CI**	**PwC Ireland**
	£	**£**	**£**	**£**
Audit of the financial statements	107,564	30,763	60,000	28,515
Review of half-yearly financial statements	20,000	—	—	—
Tax related services	—	10,981	6,750	15,050
Other non-audit services	15,000	—	100,000	—
	142,564	**41,744**	**166,750**	**43,565**

15. 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 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 loans 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 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.

The Board of Directors regularly reviews the investment portfolio 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.

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 2017, the Group had £12.33 million (2016: £56.76 million) of the total assets classified as cash and cash equivalents with floating interest rates. At 31 March 2017, 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 £30,829 (2016: £141,893). 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.

Currency risk

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

The Group invests 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 contracts 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 2017 including the effect of a change in exchange rates by 5% is shown below. The effect of a 5% change shown below apply as increase (for favourable change in currency rates) or 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 2017	Effect of a 5% change in currency rate	Carrying amount as at 31 March 2016	Effect of a 5% change in currency rate
	£	£	£	£
US Dollar	42,366,295	2,118,315	43,931,427	1,527,412
Euro	8,146,630	407,332	9,973,443	389,801
Total	**50,512,925**	**2,525,647**	**53,904,870**	**1,917,213**

15. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iii) Market risk – (continued)

Currency risk – (continued)

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 foreign currency derivatives. The net foreign exchange loss charged to the Statement of Comprehensive Income during the year was GBP 196,849 (2016: GBP 18,768) which represents:

	1 April 2016 to 31 March 2017 £	22 July 2015 to 31 March 2016 £
Net unrealised foreign currency gain	6,160,023	863,421
Realised loss on currency derivatives	(6,598,557)	(882,189)
Unrealised fair value movement on currency derivatives	241,685	—
	(196,849)	**(18,768)**

ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Many of the assets in which the Company invests are illiquid.

The Board of Directors manages liquidity risk through active monitoring of amortising cash flows and reviewing the cash flow forecast on a regular basis. The Group may borrow up to 0.25 times the then-current net asset value of the Group at the time of borrowing or up to 0.5 times the then-current net asset value of the Group at the time of borrowing with specific further approval of the Board of Directors.

Maturity profile

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

As at 31 March 2017

	Within one year £	One to five years £	Over five years £	Total £
Financial assets				
Cash and cash equivalents	12,331,519	—	—	12,331,519
Loans advanced	51,549,919	104,331,992	—	155,881,911
Margin account held with bank	270,000	—	—	270,000
Fair value of currency derivatives	239,253	—	—	239,253
Other receivables and prepayments	371,919	—	—	371,919
	64,762,610	**104,331,992**	**—**	**169,094,602**
Financial liabilities				
Fair value of currency derivatives	—	—	—	—
Taxation payable	500			500
Accrued expenses and other liabilities	4,341,811	—	—	4,341,811
	4,342,311	**—**	**—**	**4,342,311**

As at 31 March 2016

	Within one year £	One to five years £	Over five years £	Total £
Financial assets				
Cash and cash equivalents	56,757,244	—	—	56,757,244
Loans advanced	30,068,969	64,695,096	—	94,764,065
Margin account held with bank	610,000	—	—	610,000
Other receivables and prepayments	225,683	—	—	225,683
	87,661,896	**64,695,096**	**—**	**152,356,992**
Financial liabilities				
Fair value of currency derivatives	2,432	—	—	2,432
Accrued expenses and other liabilities	4,077,943	—	—	4,077,943
	4,080,375	**—**	**—**	**4,080,375**

15. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iii) 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	% of Carrying value	Carrying value	% of Carrying value
	2017	**2017**	**2016**	**2016**
Internal grade	**£**	**value**	**£**	**value**
A+	38,900,209	24.95	30,258,928	31.93
A	38,637,295	24.79	27,804,077	29.34
B	27,987,038	17.95	19,270,393	20.34
C	15,178,806	9.74	11,685,191	12.33
D	5,365,261	3.44	3,708,412	3.91
E	1,678,729	1.08	2,037,064	2.15
Not graded*	28,134,573	18.05	—	—
	155,881,911	**100.00**	**94,764,065**	**100.00**

** - This relates to an indirect investment into Credit Assets through a structured finance transaction with the EIB involving the setting up of an Irish SPV as described in note 4. The investments of the Irish SPV are loans originated in the UK.*

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

The Board of Directors have put in place the following limits on the portfolio to manage the concentration risk exposure of the Group.

Allocation limits

The proportionate division between loans originated through the various Marketplaces (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 Marketplace – between 50 per cent. and 100 per cent. of the gross asset value of the Group
- originated through the US Marketplace – between 0 per cent. and 50 per cent. of the gross asset value of the Group
- originated through the other Marketplaces – 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:

- in 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.

15. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iv) Credit risk and counterparty risk (continued)

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 2017	Short term credit rating (S&P)	Amount as at 31 March 2016	Short term credit rating (S&P)
	£		£	
HSBC	647,039	A-1+	5,841,564	A-1+
Santander	5,900,000	A-1	19,100,000	A-1
Barclays	4,336,269	A-2	17,393,508	A-2
Lloyds	1,448,211	A-1	14,422,172	A-1
Total	**12,331,519**		**56,757,244**	

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 the financial year-end, the Group's derivative counterparties were RBSI and GS. The long term-credit rating of RBSI as at 31 March 2017 assigned by Moody's was Ba1. The long term-credit rating of GS as at 31 March 2017 assigned by Moody's was A1.

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 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 2017 are its currency derivatives. The fair value of the currency derivatives held by RBSI was estimated by RBSI 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 2017. The fair value of the currency derivatives held by GS was estimated by GS based on the GBP-EUR forward exchange rate and the GBP-EUR spot rate as at 31 March 2017.

The Board of Directors believe that the fair value of the currency derivatives falls within level 2 in the fair value hierarchy described above.

15. FINANCIAL RISK MANAGEMENT – (CONTINUED)

Fair value estimation (continued)

The following table presents the fair value of the Group's assets and liabilities not measured at fair value as at 31 March 2017 but for which fair value is disclosed:

	31 March 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Loans held at amortised cost	—	—	155,881,911	155,881,911
Cash and cash equivalents	12,331,519	—	—	12,331,519
Margin account held with Bank	270,000	—	—	270,000
Other receivables and prepayments	—	371,919	—	371,919
Taxation payable	—	(500)	—	(500)
Accrued expenses and other liabilities	—	(4,341,811)	—	(4,341,811)
	12,601,519	**(3,970,392)**	**155,881,911**	**164,513,038**

	31 March 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Loans held at amortised cost	—	—	94,764,065	94,764,065
Cash and cash equivalents	56,757,244	—	—	56,757,244
Margin account	610,000	—	—	610,000
Other receivables and prepayments	—	225,683	—	225,683
Accrued expenses and other liabilities	—	(4,077,943)	—	(4,077,943)
	57,367,244	**(3,852,260)**	**94,764,065**	**148,279,049**

The Board of Directors believe that the carrying values of the above instruments approximate their fair values. The fair value of loans advanced is estimated to be approximate to the carrying value because the Directors believe that the effect of re-pricing between origination date and the date of this report is not material. 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 period.

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 the Ordinary Shares 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 Alternative Investment Manager Directive ("AIFMD"). As at 31 March 2017, the Group used leverage through the structured finance transaction as disclosed in Note 4. The level of the Group's leverage has not resulted in a change of the reporting requirements as prescribed by the AIFMD.

16. RELATED PARTY DISCLOSURE

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

	£
Chairman	50,000
Audit Committee Chairman	40,000
Risk Committee Chairman	40,000
Other directors	30,000
	160,000

Sachin Patel, who is a member of the Board of Directors from 18 May 2017, has waived his fees as a director of the Company. Samir Desai, who was a director of the Company up to 18 May 2018, waived his fees for the period of his tenure.

16. RELATED PARTY DISCLOSURE – (CONTINUED)

Richard Burwood is also a director of Basinghall and Tallis and is entitled to receive £5,000 per annum as director's fees from each of the companies.

As at 31 March 2017 each of Richard Boléat, Jonathan Bridel and Richard Burwood has a share interest in the Company, in the form of 5,000 (2016: 5,000) Ordinary Shares, representing 0.0033% interest in voting rights. Samir Desai (resigned on 18 May 2017) and Frederic Hervouet each has a share interest in the Company as at 31 March 2017 of 148,138 (2016:148,138) and 107,000 (2016: 5,000) representing 0.0927% and 0.0669% interest in voting rights, respectively.

The Directors held the following number of shares as at 31 March 2017 and 31 March 2016:

	As at 31 March 2017		As at 31 March 2016	
	Number of shares	% of total shares in issue	Number of shares	% of total shares in issue
Richard Boléat	5,000	0.0030	5,000	0.0033
Jonathan Bridel	5,000	0.0030	5,000	0.0033
Richard Burwood	5,000	0.0030	5,000	0.0033
Samir Desai (resigned on 18 May 2017)	148,138	0.0927	148,138	0.0987
Frederic Hervouet	107,000	0.0669	5,000	0.0033
Sachin Patel	—	—	—	—
	270,138		**168,138**	

The Group has no employees during the year or the prior period.

The Directors delegate certain functions to other parties. In particular, the Directors have appointed Funding Circle UK, Funding Circle US, Funding Circle Netherlands, Funding Circle Spain and Funding Circle CE to originate and service the Group's investments in loans. 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, Funding Circle US and Funding Circle CE are disclosed below.

	Transaction	Expense during the year ended 31 March 2017 £	Payable as at 31 March 2017 £	Expense during the period ended 31 March 2016 £	Payable as at 31 March 2016 £
Funding Circle UK	Servicing fee	770,131	66,085	117,151	54,183
Funding Circle UK	Corporate services fee	145,670	14,138	—	—
Funding Circle UK	Reimbursement of expenses	56,955	31,309	—	—
Funding Circle US	Servicing fee	410,762	33,778	53,230	11,452
Funding Circle CE	Servicing fee	31,518	4,910	—	—

On 31 October 2016, Funding Circle purchased a loan from the Group with an outstanding principal of $7,386 at par value.

During the period ended 31 March 2016, Funding Circle purchased a loan from Basinghall with an outstanding principal and accrued interest of £106,358 at par value. Funding Circle also purchased a loan from Basinghall with an outstanding principal and accrued interest of £454,167 at par value. The terms of these transactions were approved by the respective Boards of the Company and Basinghall. The proceeds from the sale of loans of £106,358 was outstanding as at 31 March 2016.

17. INVESTMENT IN SUBSIDIARIES

The Company had the following subsidiaries, in accordance with the definition of subsidiaries and control set out in IFRS 10, as at 31 March 2017, whose results were fully consolidated during the year:

	Country of incorporation	Principal activity	Transactions	Outstanding amount £
Basinghall Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in the UK	Subscription of notes issued	80,415,760
Tallis Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in Spain, Germany and the Netherlands	Subscription of notes issued	8,110,154
				88,525,914

18. SUBSEQUENT EVENTS

In February 2017, the Company issued a revised prospectus which established a programme by which the Directors are able to issue up to 500 million ordinary shares and/or C shares in aggregate. In April 2017, the Company issued 142 million C Shares at a price of £1 per C Share raising net proceeds of £139,870,000 after issue costs of £2,130,000.The Class C shares are listed separately on the Premium section of the London Stock Exchange (ISIN: GG00BYNV2672).

At 30 April 2017, the NAV attributable to the C Class Shares of Funding Circle SME Income Fund Limited was £139.86 million and the NAV per C Class Share was 98.49 pence. At 31 May 2017, the NAV attributable to the C Class Shares was £139.92 million and the NAV per C Class Share was 98.53.

On 18 May 2017, Samir Desai resigned as a director and Sachin Patel was appointed as a director. Phillip Hyett was appointed on 31 May 2017 as an alternate director to Sachin Patel. Phillip Hyett is also director of the Irish SPV set-up for the structured finance transaction with the EIB and therefore the Irish SPV became a related party on this date on the basis of the common directorship of Phillip Hyett.

On 15 June 2017, the Board declared a dividend of 1.625 pence per Ordinary Share payable on 31 July 2017 to shareholders on the register as at the close of business on 23 June 2017 and the corresponding ex-dividend date of 22 June 2017.

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, listed on the London Stock Exchange, and Yatra Capital Limited, listed on Euronext, along with 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 Alcentra European Floating Rate Income Fund Limited, Starwood European Real Estate Finance Limited, 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, 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.

Samir Desai

Non-executive Director

Mr Desai is Global CEO and co-founder of Funding Circle. Samir is responsible for driving Funding Circle's strategy, overseeing its finances and managing its day to day operations. Mr Desai has worked extensively in the financial services sector. Before co-founding Funding Circle, Mr Desai was an Executive at Olivant Advisers Limited, a private equity investor in financial services businesses in Europe, the Middle East and Asia. Prior to this, Mr Desai was a management consultant at Boston Consulting Group advising a number of major UK and global banks and insurers on strategy, new product initiatives, and operational efficiency.

Samir resigned as a director of the Company on 18 May 2017.

BOARD OF DIRECTORS

Frederic Hervouet
Risk Committee Chairman, Non-executive Director
Mr. Hervouet is based in Guernsey and acts in a non-executive directorship capacity for a number of hedge funds, private equity & credit funds (including structured debt, distressed debt and asset backed securities), for both listed (SFM on LSE, Euronext) and unlisted vehicles.

Mr. Hervouet was Managing Director and Head of Commodity Derivatives Asia for BNP Paribas including Trading, Structuring and Sales. Mr. Hervouet has worked under different regulated financial markets based 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).

Mr. Hervouet holds a Master Degree (DESS 203) in Financial Markets, Commodity Markets and Risk Management from University Paris Dauphine and an MSc in Applied Mathematics and International Finance. He is a member of the UK Institute of Directors, a member of the Guernsey Chamber of Commerce and a member of the Guernsey Investment Fund Association. Mr. Hervouet is a resident of Guernsey.

Sachin Patel
Non-executive Director
Sachin Patel was appointed as Director on 18 May 2017, replacing Samir Desai who resigned on the same date. 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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Legal advisors as to Irish Law
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Portfolio Administrator
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United Kingdom

Corporate broker and Bookrunner and Sponsor
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10 Paternoster Square
London EC4M 7LT
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UK Transfer Agent and Receiving Agent
Capita Registrars Limited (trading as Capita Asset Services)
The Registry
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Beckenham
Kent BR3 4TU
United Kingdom

Registrar
Capita Registrars (Guernsey) Limited
Mont Crevelt House
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St Sampson
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Independent Auditors
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Royal Bank Place
1 Glategny Esplanade
St Peter Port
Guernsey GY1 4ND
Channel Islands

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; and (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 investment 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) to be available for investment by Basinghall and Tallis and excluding (without limitation) amounts held as reserves or pending distribution
"Company Secretary"	Sanne Group (Guernsey) Limited
"Credit Assets"	loans or debt or credit instruments of any type originated through any of the Marketplaces
"Funding Circle"	Funding Circle UK, Funding Circle US 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.
"Funding Circle Spain"	Funding Circle Espaňa SLU
"Funding Circle UK"	Funding Circle Limited
"Funding Circle US"	FC Marketplace, LLC
"Marketplaces"	the marketplace platforms operated in the UK, US and CE respectively, by Funding Circle, together with any similar or equivalent marketplace platform established or operated by Funding Circle in any jurisdiction

GLOSSARY

"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
"Portfolio Limits"	One or more concentration limits, expressed as a maximum percentage of the Company's gross asset value which may be invested in Credit Assets having the relevant feature, in respect of any of the metrics comprising the portfolio data
"PwC"	PricewaterhouseCoopers CI LLP and PricewaterhouseCoopers Ireland
"PwC CI"	PricewaterhouseCoopers CI LLP
"PwC Ireland"	PricewaterhouseCoopers Ireland
"Qualifying Assets"	are those Credit Assets which the Company has Available Cash to Purchase and which would not breach the Company's Investment Policy or any Portfolio Limits were they to be randomly allocated and purchased by the Company

Funding Circle SME Income Fund Limited

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