Annual **Report and** A**udited Consolidated** Financial Statements

for the year ended 31 March 2018

Funding Circle
SME Income Fund

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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

- Ordinary share net asset value ("NAV") increased to £308 million from £165 million, including C shares issued for £142 million in April 2017 which converted to Ordinary shares in December 2017.
- Total comprehensive income for the year amounted to £17.2 million (2017: £11.1 million).
- Aggregate dividends of 6.5 pence per Ordinary share declared for the year ended 31 March 2018, which is in line with the original dividend target of 6 to 7 pence per Ordinary share per annum.
- Dividend of 1.73 pence per C share declared on 20 November 2017. This was paid on 21 December 2017, prior to conversion of the C shares to Ordinary shares.
- Participated in a structured finance transaction with Citibank London ("Citibank transaction") in January 2018, involving the setting up of a new Designated Activity Company ("Lambeth").

The information below is presented for year ended 31 March 2018 and as at 31 March 2018 unless expressly stated to cover a period.

NAV per Ordinary share	Total Net Assets	Ordinary share price	Market Capitalisation	Premium / (Discount)
100.18p	**£308mil**	**105.00p**	**£323mil**	**4.8%**

Dividends per Ordinary share	Earnings per Ordinary share	Share Price Total Return (inception to date)	NAV Total Return (inception to date)
6.5p	**8.41p**	**18.3%**	**14.9%**

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.

Capital Management

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

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 were 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's Main Market on 12 April 2017. The C shares converted to Ordinary shares on 20 December 2017 (note 9).

In January 2018, the Company entered into the Citibank transaction to establish Lambeth to make loans to UK small businesses through the Funding Circle platform. Under the terms of the agreement, Citibank London ("Citibank") provided £50 million into the transaction, by entering into a senior floating rate loan. The Group contributed a portfolio of existing UK small business loans with a value of £53,472,022 (note 4).

In February 2018, the Company issued 24,928,394 new Ordinary shares at a price of 100.23 pence per share to be held in treasury. The net cash position of the Company following these transactions remained unchanged. In May 2018, the Company's Ordinary shares currently held in Treasury (the "Treasury Shares") were made available to meet market demand from existing and new investors (note 10).

The Company issued scrip dividends during the year amounting to £2,009,470 and 1,953,598 shares (2017: £702,909 and 685,063 shares).

Group Structure

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 platform. 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 the Funding Circle platform, as a leader in the growing direct lending space 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 2018 (the "Annual Report") includes the results of Basinghall Lending Designated Activity Company ("Basinghall"), Tallis Lending Designated Activity Company ("Tallis") and Lambeth Lending Designated Activity Company ("Lambeth"). The Company, Basinghall, Tallis and Lambeth are collectively referred to in this report as the "Group".

CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to be able to report another solid set of results for the Company for the year ended 31 March 2018.

Performance and Distributions

Performance during the year has been consistent with the Board's expectations. Total comprehensive income for the year amounted to £17.2 million, before finance costs related to the Company's ongoing capital raising activities. As at 31 March 2018, the Company held, directly and indirectly, 7,491 discrete loans spread across the United Kingdom, the United States and Continental Europe.

Impairment charges for the period under review were 17.9% (2017: 18.9%) of interest income from loans. Total impairment provisions on the £330mn portfolio at the period end (2017: £155mn) amounted to £8.4 million (2017: £3.3 million) and represented some 2.5% (2017: 2.1%) of net amortised loans advanced, both metrics reflecting the Company's expectations and demonstrating the stability of the net return profile derived through diversification across industry sectors and markets. I will continue to report these metrics periodically to you as they are key to understanding the dynamics of the performance of the Company's portfolio over time, although such comparisons will be complicated in future by adjustments imposed on the Company by changes in accounting standards. More on this below.

Quarterly dividends declared during the period amounted to 6.5 pence per Ordinary share, with a single dividend declared on the Company's C shares prior to their conversion into Ordinary shares in December 2017. Net profit to Ordinary share dividend cover for the period (adjusted for finance costs of capital raising) stood at 1.1x (year to 31 March 2017: 1.2x). Please see further below in respect of future guidance.

Capital Management, Leverage and Forward Guidance

The Company closed a C share issuance on 7 April 2017, raising £142 million of fresh capital. The capital was fully deployed and converted to Ordinary shares in December 2017, in accordance with the pre-determined formula laid out in the Company's prospectus. In January 2018, the Company secured additional leverage with Citibank so as to enable it to maintain this policy position in line with the expansion of the Company's ordinary equity post conversion of its C share capital, and the resulting growth of the loan portfolio. As a result, the effective leverage attributable to the Company as a whole on a look-through basis at the period end was approximately 49%, which reflects the Board's policy objective. The Company has effectively de-levered slightly subsequent to the most recent capital raise in May 2018 so that, as I write, look through leverage stands at around 45%. The Company's arrangements with the EIB will start to amortise in Q3/18. Accordingly, the Company is working to upsize its existing leverage arrangements with Citibank. In addition, Funding Circle and the Company are in discussions with the British Business Bank ("BBB") about a project to provide financing to UK SMEs via the Funding Circle UK lending platform. It is envisaged that the Company may participate in this financing project, subject to approval by the Board. The BBB would contribute up to £150 million of senior financing pro rata with the Company's junior participation.

Leverage in Sterling terms remains available to the Company at attractive market linked rates. However, divergent monetary policy in the UK and US has seen a significant widening of the GBP/USD interest rate differential - from parity at the time of IPO to approximately -1.7% at the end of June 2018 – and a material increase in the cost of hedging USD assets into GBP. The Board, the Capital Markets team at Funding Circle and our advisors have worked hard over recent months to enable the robust provision of forward guidance which culminated in the Board's announcement at the end of last month that the anticipated currency hedged returns available from its SME loan portfolio will enable the Company to pay a fully covered annual dividend of 5 to 6 pence per share, with effect from the quarter ended 30 September 2018. The Board recognises that investors are disappointed with this revised guidance and shares that disappointment. However, this is tempered by the recognition that such revisions derive from monetary policy effects in our chosen markets and changes to the Company's leverage profile, as opposed to the Company's loan book, which continues to perform in line with expectations.

Some investors have taken the opportunity to question why the Company does not concentrate all of its capacity in the UK, thus avoiding cross-border monetary policy effects entirely. The Board appreciates these interactions, and actively debates them. However, the Board has chosen not to adopt this suggestion for two reasons; firstly, because the geographical diversity of the Company's portfolio, particularly in the US, reduces the risk profile of the Company as a whole by avoiding overconcentration; and secondly because the monetary policy effects that the Company foresees through its forward guidance are typically cyclical over the medium term. That being said, the Board has resolved to commence a program of partial reallocation of capital deployment away from the US and towards the UK and Continental Europe, such that, once complete, the relative exposures of the Company will be adjusted away from the US by an amount representing up to 10% of the Company's total portfolio. The Board sees this as an appropriate and proportionate tactical response to its 12 month forward expectations taking into account monetary policy effects.

CHAIRMAN’S STATEMENT

Accounting Adjustments

From 1 April 2018, the Company adopted IFRS 9, a new accounting standard requiring the recognition of expected, as well as incurred, credit losses. A resulting impairment provision of minus 1.1% was recognised in the April 2018 NAV, which was in line with previous market guidance. This is purely an accounting adjustment and does not reflect any change to the operation of the Company or the performance of its loan book.

The Board, in consultation with the Company’s auditors, has revised its approach to accounting for the structured finance transaction with Citibank (Lambeth Lending DAC, or “Lambeth”). Previously, the Company accounted for its interest at fair value, in line with the European Investment Bank transaction. It will now consolidate Lambeth. This approach has been incorporated in the audited financial statements that accompany this statement. This will result in a decrease in the Company’s net asset value of approximately minus 0.7% owing to an increased impairment provision calculated in accordance with IFRS 9. This is an accounting adjustment only that does not change the Company’s expected cash flows or risk. Moreover, it does not affect the forward guidance as set out above.

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
11 July 2018

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 platform operated by Funding Circle and indirectly, in each case as detailed in the Company's investment policy. The Group has identified the Funding Circle platform as a leader in the growing direct lending space to SMEs 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 Platforms. The type of loans or debt or credit instruments available through the Platforms may vary from time to time, and Funding Circle may in the future acquire, establish and/or operate Platforms in addition to its existing Platforms. When Funding Circle determines that any new Platform may be suitable for receiving investments from the Company (for example, when any such Platform is operational and is able to facilitate investment in Credit Assets by the Company in a manner consistent with the Prospectus), then Funding Circle may propose to the Company the terms and documentation on which investments in Credit Assets originated through such Platform shall be made (subject always to the Allocation Limits defined in note 16). The determination as to whether to proceed with investment in Credit Assets originated through a Platform other than the existing Platforms 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 Platforms 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 Basinghall, Tallis or Lambeth 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 2018, the Company holds indirect investments in loans through the following investing companies:

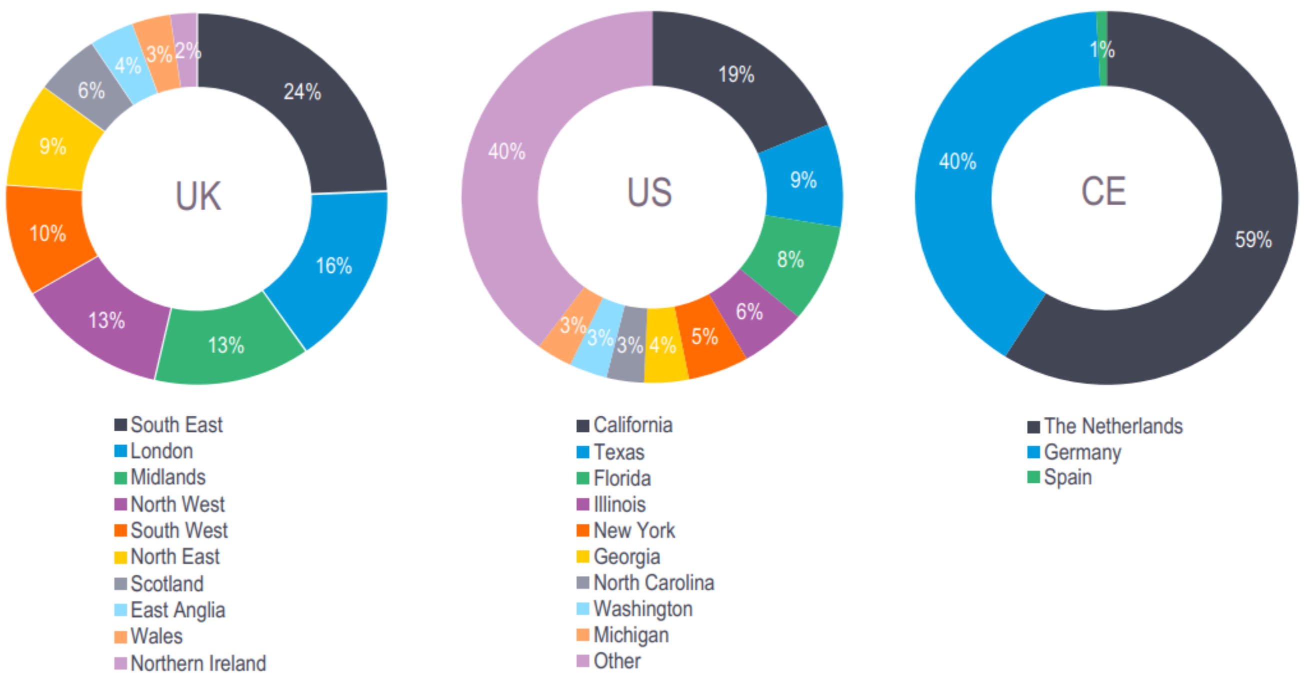
Investing Company	Jurisdiction
Basinghall	**United Kingdom**
Tallis	**Germany, the Netherlands and Spain***
EIB SPV	**United Kingdom**
Lambeth	**United Kingdom**

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

Allocation Limits and Other Limitations

The Company will invest in Credit Assets originated through the various Platforms in each case (whether directly or indirectly) subject to the Allocation Limits and other limitations described in Note 16.

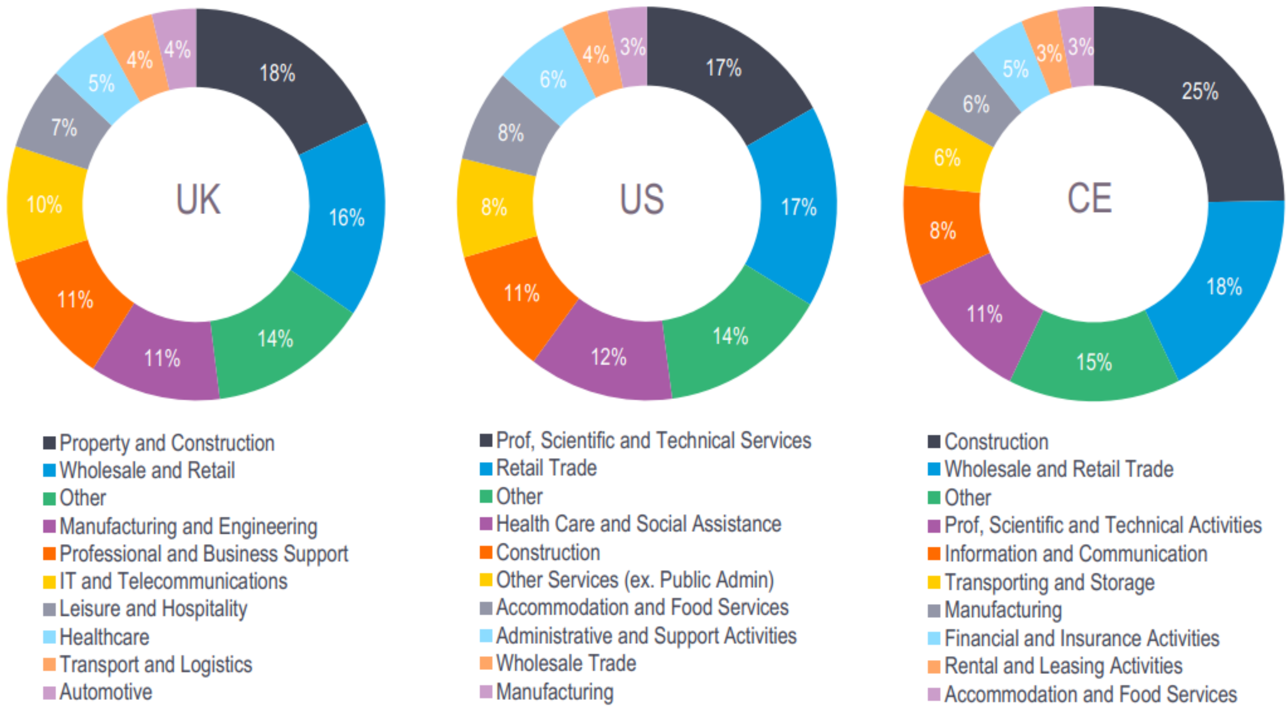
Loans by geographical region



STRATEGIC REPORT

Investment Policy (continued)

Loans by Industry Sector



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

Loans acquired by Basinghall, Tallis and Lambeth (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, Tallis and Lambeth 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, Tallis and/or Lambeth) 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, Tallis and/or Lambeth 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's leverage ratio, taking into account the EIB transaction on a "look through" basis, was approximately 49% as at 31 March 2018 which is within the Board's approved leverage limit of 50%.

Investment Policy (continued)

Borrowing Limitation – (continued)

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.

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 continues to monitor the Company's systems of risk management and internal control and will continue to receive updates from the Company's external service providers to ensure that the principal risks and 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 16 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 continue 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 remains unclear 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 NAV total return Share price vs NAV per share Credit losses

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 Platforms to the extent that a sufficient number of Credit Asset requests are received by the Platforms which satisfy the Platforms' 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 NAV total return

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 Platforms 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 2018, the Company entered into forward foreign exchange contracts to minimise the risk of loss due to fluctuation of the Sterling to US Dollar exchange rate and the Sterling to Euro exchange rate in pursuance of this policy. There were unavoidable costs incurred in the hedge related to the interest rate differential between Sterling and the other currencies in the Group's assets and liabilities. These costs are to be expected from a hedging programme.

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. In line with the Group's investment strategy, the Group participated in the Citibank transaction (see note 4) during the year and has now substantially deployed all the funds raised through direct and indirect investment in loans.

STRATEGIC REPORT

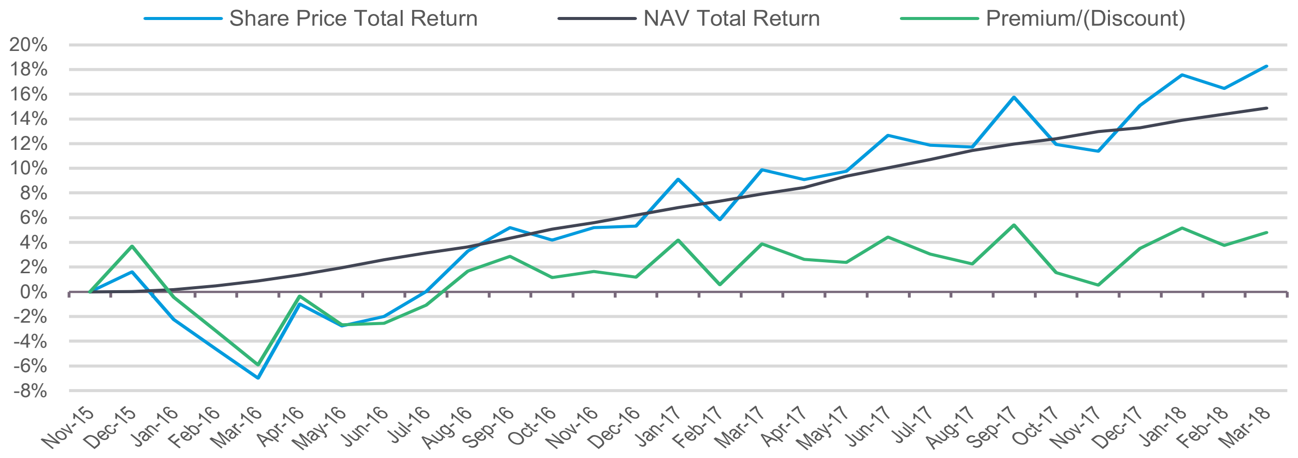
Financial Performance – (continued)

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

- Share price total return
- NAV total return
- 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 2018, the Company had deployed 94% of the issued capital in direct and indirect loans to SMEs in the UK, US and CE. These funds included C shares (subsequently converted to Ordinary shares) and scrip dividends issued during the year.

In accordance with the Company's investment policy, the Company holds 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 on a look through basis, as if the loans were held directly by the Group.

Dividend per share

The Company's policy has been to seek to declare an annual dividend of between 6 pence to 7 pence per Ordinary share. 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. The Board declared dividends during the year totalling 6.5 (2017: 5.875) pence per Ordinary share. A single dividend of 1.73 pence per C share was paid prior to conversion in November 2017.

On 29 June 2018, after careful review of the effects to the total return of the material increase in hedging costs on the Company's USD-denominated assets and the leverage employed, the Company provided revised forward dividend guidance for the next 12 months, being a fully covered annual dividend of 5 to 6 pence per Ordinary share with effect from the quarter ended 30th September 2018.

Credit losses

The Board carefully monitors the level of defaults arising within the Group's portfolio. As the Group's portfolio matures, an increase in credit losses is to be expected. The credit loss provision as at 31 March 2018 was £8.4m against outstanding principal and interest amounts of the loan portfolio of £330.6m (31 March 2017: provision of £3.2m against an outstanding principal and interest amounts of the loan portfolio of £156m). The level of credit losses is in line with expectations.

Implementation of IFRS 9

The Group formally adopted IFRS 9 with effect from 1 April 2018. As discussed in note 2 to the financial statements, adoption of IFRS 9 will result in reclassification of the Group's investment in structured finance transactions from amortised cost financial instruments to financial assets at fair value through profit or loss. The Group's impairment model was changed to comply with the requirements of IFRS 9 and take into account expected credit losses at the point each loan is originated and to adjust these expectations to reflect future macroeconomic conditions.

The implementation of IFRS 9 in April 2018 led to a one-off decrease in the Group's net asset value of (1.1)%.

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 and in particular the ability of Funding Circle Platforms to originate new loans when making an assessment of the Company's viability. 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 continue 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.

Diversity and Inclusion

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

The Remuneration and Nominations Committee and the Board are committed to diversity at Board level and is supportive of increased gender and ethnic diversity but recognises that it may not always be in the best interest of shareholders to prioritise this above other factors. The Remuneration and Nominations Committee regularly reviews the structure, size and composition required of the Board, taking into account the challenges and opportunities facing the Company. In considering future candidates, appointments will be made with regard to a number of different criteria, including diversity of gender, ethnic 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 2018. 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 £17.2 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 13.

Business review

In February 2017, the Company issued an updated prospectus which established a programme by which the Directors were 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 C shares were converted to Ordinary shares on 20 December 2017 at a ratio of 0.9917031 which resulted in the issue of 140,821,840 new Ordinary shares.

On 17 January 2018, the Group participated in the Citibank transaction which involved the setting up of Lambeth. Citibank invested £50 million in Lambeth and Basinghall transferred loans and advances with an amortised cost of £53 million to Lambeth in exchange for Profit Participation Notes issued by the Lambeth. Of the £50 million invested by Citibank into Lambeth, £49.5 million was used to purchase a portfolio of loans from Basinghall with the same approximate amortised cost.

In February 2018, the Company issued 24,928,394 new Ordinary shares at a price of 100.23 pence per share to Numis Securities Limited, the Company's corporate broker, and immediately repurchased them at the same price, to be held in treasury. The net cash position of the Company following these transactions remained unchanged.

On 1 May 2018, the Company's Ordinary shares currently held in Treasury (the "Treasury Shares") were made available to meet market demand from existing and new investors. The sale price per Treasury Share was 102.20p, representing a discount of 2.2% to the Ordinary share price as at close of trading on 30 April 2018 and a premium to the estimated NAV per Ordinary share (after provision for IFRS 9 adjustments) of 2-3%.

The Group formally adopted IFRS 9 from 1 April 2018 subsequent to the year end. The implementation of IFRS 9 in April 2018 led to a one-off decrease in the Group's net asset value of (1.1)%.

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.

A schedule of disclosures prepared by the Directors for the purposes of AIFMD is available on the Company's website at www.fcincomefund.com. 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.

Alternative Investment Fund Managers Directive ("AIFMD") – (continued)

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

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

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

Common Reporting Standard ("CRS")

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

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

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

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 £143.6 million or approximately 87% arising from profits and additional funding from the issue of shares. 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 Head of Funds 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 54 to 55.

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.

DIRECTORS' REPORT

Directors' shares and interests – (continued)

As at 31 March 2018, the Directors held the following Ordinary shares of the Company:

	Number of shares	
	2018	**2017**
Frederic Hervouet	**107,000**	**107,000**
Jonathan Bridel	**5,000**	**5,000**
Richard Boléat	**5,000**	**5,000**
Richard Burwood	**5,000**	**5,000**
Samir Desai (resigned on 18 May 2017)	**N/A**	**148,138**
Sachin Patel (appointed on 18 May 2017)	**—**	**N/A**
	122,000	**270,138**

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 Patel is an employee of Funding Circle Limited.

Substantial shareholdings

As at 31 March 2018, 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	**86,291,732**	**28.04**
Railway Pension Trustee Company Limited	**81,234,027**	**26.40**
BlackRock Investment Management (UK) Limited	**47,065,787**	**15.29**
Standard Life Aberdeen Limited*	**18,463,461**	**6.00**
SG Kleinwort Hambros Bank Limited	**18,273,279**	**5.94**

** In March 2017, Aberdeen Asset Management Limited merged with Standard Life Aberdeen PLC and was renamed Standard Life Aberdeen Limited.*

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

In February 2018, the Company issued 24,928,394 new Ordinary shares at a price of 100.23 pence per share to Numis Securities Limited, the Company's corporate broker, and immediately repurchased them at the same price, to be held in treasury. The net cash position of the Company following these transactions remained unchanged.

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) waived his remuneration. Sachin Patel, who was appointed as a director of the Company on 18 May 2017, has waived his remuneration. Please refer to page 22 in the Directors' Remuneration Report.
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.

DIRECTORS' REPORT

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

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 (Alternate Director and Director of Lambeth) 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.

Disclosure of information to the Auditor

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

Auditor

PricewaterhouseCoopers CI LLP ("PwC") served as auditor during the financial year and has expressed its willingness to continue in office. A resolution to re-appoint PwC as auditor 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 auditor does not involve consideration of these matters and accordingly, the auditor accepts no responsibility for any changes that may have occurred to the consolidated financial statements since they were initially presented on the website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Company Secretary

The Company Secretary is Sanne Group (Guernsey) Limited of 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 2018 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 54 to 55 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

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

Committees of the Board

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

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

Committees of the Board (continued)

Audit Committee

The Board has established the Audit Committee comprising of all the Directors except for 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 auditor may report to the Board. The Audit Committee reviews and recommends to the Board the adoption and approval of the annual and half yearly financial statements, results, internal control systems and procedures and accounting policies of the Company.

Risk Committee

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

Management Engagement Committee

The Company has established a Management Engagement Committee which is chaired by Richard Burwood and comprises of all the Directors except for 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 Incorporation;
- reviewing the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes necessary; and
- giving full consideration to succession planning of Directors, taking into account the challenges and opportunities facing the Company.

Meetings and attendance

There were 11 Board meetings held during the financial year ended 31 March 2018. The attendance record of each of the Directors was as follows:

	Number of attendances during the year
Frederic Hervouet	**11**
Jonathan Bridel	**11**
Richard Boléat	**11**
Richard Burwood	**11**
Samir Desai (resigned on 18 May 2017)	**0**
Sachin Patel (appointed 18 May 2017)	**5**

There were 4 Risk Committee meetings, 3 Audit Committee meetings, 1 Management Engagement meeting and 3 Remuneration and Nominations Committee meetings held during the financial year ended 31 March 2018.

Meetings and attendance – (continued)

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

	Number of attendances during the year			
	Audit Committee	Risk Committee	Management Engagement Committee	Remuneration and Nominations Committee
Frederic Hervouet	3	4	1	3
Jonathan Bridel	3	4	1	3
Richard Boléat	3	4	1	3
Richard Burwood	3	4	1	3
Samir Desai (resigned on 18 May 2017)	N/A	0	N/A	0
Sachin Patel (appointed on 18 May 2017)	N/A	4	N/A	1

Board Observers

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

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

Company Secretary

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

Internal Control Review

The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit Committee.

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 Funding Circle CE together with other service providers appointed by the Company.

Investor Relations

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

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

Email: ir@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 auditor and the management of the Company's systems of internal controls and business risks.

Responsibilities

The primary responsibilities of the Audit Committee are:

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

The Audit Committee members have a wide range of financial and commercial expertise necessary to fulfil the Committee's duties. The Chairman of the Committee, Jonathan Bridel, is a Fellow of the Institute of Chartered Accountants in England and Wales, and has recent and relevant financial experience, as required by the AIC Code. He serves as Audit Chairman on other listed companies and previously worked in senior positions in banking and finance and investment management including SME lending. The Board is satisfied he has recent and relevant financial experience and has designated him as its financial expert on the Committee. The Committee as a body has the competence and experience relevant to the sector. The qualification of the members of the committee are noted in the biographies section on pages 54 and 55.

Committee Meetings

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

Main Activities during the year

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

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

AUDIT COMMITTEE REPORT

Main Activities during the year – (continued)

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

Financial reporting

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

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

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

Significant risks

In relation to the annual report and consolidated financial statements for the year ended 31 March 2018, the following significant risks were considered by the Audit Committee as they are most relevant to the nature of the Group's business:

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

  The measurement of loans advanced is in accordance with the accounting policy set out in Note 3 of the 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. The Company revised the impairment policy subsequent to the year end from 1 April 2018, following the adoption of IFRS 9 (see note 2 to 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 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 2018 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 2018 significant risks were identified in relation to impairment and the carrying values of loans advanced and the risk of fraud in revenue recognition (in addition to the risk of management override of controls). These risks are tracked through the year and the Committee challenged the work done by the auditor to test management's assumptions and estimates around these areas. The Committee has assessed the effectiveness of the audit process addressing these matters through the reporting received for the year-end 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 2018, the Committee was satisfied that there had been appropriate focus and challenge on the primary areas of audit risk and assessed the quality of the audit process to be good.

Appointment and Independence

The Committee considers the reappointment of PwC, including the rotation of the Audit Engagement Partner, and assesses their independence on an annual basis. The external auditor is required to rotate the Audit Engagement Partner responsible for the Company's audit every seven 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 auditor, the Committee receives details of any relationships between the Company and PwC that may have a bearing on their independence and receives confirmation that they are independent of the Company. The Committee approved the fees for audit services for the year ended 31 March 2018 after a review of the level and nature of work to be performed and after being satisfied that the fees were appropriate for the scope of the work required.

Non Audit Services

To safeguard the objectivity and independence of the external auditors from becoming compromised, the Committee has a formal policy governing the engagement of the external auditors to provide non-audit services. No material changes have been made to this policy during the year. The auditor and the Directors have agreed that all non-audit services require the pre-approval of the Audit Committee prior to commencing any work. Fees for non-audit services are tabled annually so that the Audit Committee can consider the impact on auditor's objectivity. The auditor (and their affiliated network firms) was remunerated £227,439 (2017: £184,309) for their audit and non-audit services rendered for the year ended 31 March 2018. 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 2018:

	2018		2017	
Type of service	**PwC CI**	**PwC Ireland**	**PwC CI**	**PwC Ireland**
	£	**£**	**£**	**£**
Audit of the Group	97,732	68,833	107,564	30,763
Review of half yearly financial statements	21,450	—	20,000	—
Tax compliance review	—	12,424	—	10,981
Transaction related services*	27,000	—	15,000	—
	146,182	**81,257**	**142,564**	**41,744**

* This includes £15,000 paid to PwC UK for assistance with the implementation of IFRS 9.

The Committee is satisfied with the effectiveness of the audit provided by PwC, and is satisfied with the auditor's independence. The Committee has therefore recommended to the Board that PwC be reappointed as external auditor for the year ending 31 March 2019, and to authorise the Directors to determine their remuneration and terms of engagement. Accordingly, a resolution proposing the reappointment of PwC as auditor will be put to the shareholders at the 2018 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
11 July 2018

DIRECTORS' REMUNERATION REPORT

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

Composition

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

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

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

Responsibilities

The primary responsibilities of the Committee are:

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

Remuneration Policy

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

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

	Annual fee **£**	**Notes**
Frederic Hervouet	40,000	**Chairman of the Risk Committee**
Jonathan Bridel	40,000	**Chairman of the Audit Committee**
Richard Boléat	50,000	**Chairman of the Board and Chairman of the Remuneration and Nominations Committee**
Richard Burwood*	40,000	**Chairman of the Management Engagement Committee**
Sachin Patel**	—	**Waived annual Director's fee**
	170,000	

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

*** - Sachin Patel was appointed on 18 May 2017 and has waived his entitlement to a director's fee. 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 entitled to any other fixed or variable remuneration.

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

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

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

DIRECTORS' REMUNERATION REPORT

Remuneration Policy (continued)

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

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

Directors' remuneration and Share interests

The total remuneration of the Directors for the year ended 31 March 2018 was as follows:

	31 March 2018	**31 March 2017**
	£	**£**
Frederic Hervouet	40,000	56,250
Jonathan Bridel	40,000	60,000
Richard Boléat	57,895	70,696
Richard Burwood	56,281	65,019
Samir Desai (resigned on 18 May 2017)*	—	—
Sachin Patel (appointed on 18 May 2017)*	—	N/A
	194,176	**251,965**

**Director's fee waived*

Richard Burwood is also a Director of Basinghall and Tallis. The total remuneration to Richard Burwood disclosed in the above table includes £23,576 (2017: £10,018) representing Director's fees and expenses 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 2018 each of Richard Boléat, Jonathan Bridel, and Richard Burwood had a share interest in the Company, in the form of 5,000 (2017: 5,000) Ordinary shares, representing 0.0024% interest in voting rights. Frederic Hervouet had a share interest in the Company in the form of 107,000 (2017: 107,000) Ordinary shares, representing 0.0522% in the voting rights as at 31 March 2018. Samir Desai resigned on 18 May 2017 and had a share interest in the Company in the form of 148,138 Ordinary shares at the date of resignation. 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 Incorporation. The Company welcomes any views the shareholders may have on its remuneration policy.

Richard Boléat
Chairman of the Remuneration and Nominations Committee
11 July 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE FINANCIAL STATEMENTS

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

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

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

In preparing these 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 IFRS Interpretations Committee, give a true and fair view of the assets, liabilities, financial position and results of the Group; and
- The annual report and 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
Chairman
11 July 2018

Jonathan Bridel
Chairman of the Audit Committee
11 July 2018

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 2018, 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 2018;
- 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.

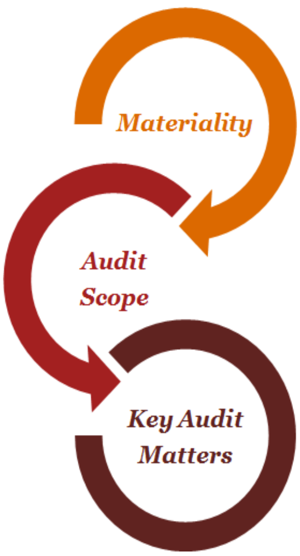
Independence

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

Context

Our audit of the Group for the year ended 31 March 2018 was planned and executed having considered the key activities of the Group during the year including that the Company issued C shares in April 2017 and entered into a new structured finance transaction in January 2018 (the 'Citibank transaction'). The Citibank transaction is complex and required additional audit focus as detailed in the Key audit matters section below. Other than this, our assessment is that the primary operations of the Group have remained largely unchanged from the prior year. As such, our overall audit approach in terms of scoping and key audit matters was largely in line with the prior year's audit, with continued focus on the impairment and carrying value of loans advanced.



Materiality

- Overall materiality was £6.9 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.
- Accounting treatment of the Citibank transaction.

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 three underlying subsidiaries located in Ireland. The consolidated financial statements are a consolidation of the Company and all underlying subsidiaries.

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

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the 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	£6.9 million (2017: £3.7 million)
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 £345,000, 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the Key audit matter</th></tr>
<tr><td>
Impairment and carrying value of loans of loans advanced
Refer to note 2d Use of estimates and judgements, note 3 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 £330.6m as at 31 March 2018. This amount is net of an impairment allowance and loans written-off of £5.1m (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.
</td><td>
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 EIB structured finance transaction, and the underlying loan portfolio; and
reviewing the underlying legal agreements of the structured finance transactions 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.
</td></tr>
<tr><td>
Accounting treatment of the Citibank transaction
Refer to note 2b Basis of measurement and consolidation, note 2d Use of estimates and judgements, note 4 Loans advanced and note 18 Investment in subsidiaries.
In January 2018, the Group entered into a structured finance transaction with Citibank London, N.A (the "Citibank transaction").
The complex structure and the financial instruments involved require the Group to assess and interpret the substance of the contractual agreements entered into as part of the Citibank transaction.
</td><td>
We have assessed the appropriateness of the accounting treatment to consolidate Lambeth and the recognition of the associated loans advanced, and the income and expenses, as part of the Citibank transaction under IFRS 10 and IAS 39. As part of this we also assessed the classification and measurement of the Loan payable to Citibank under IAS 39.
Our audit procedures included, amongst others, the following:

obtaining and understanding all legal agreements entered into as part of the Citibank transaction;
discussing the Citibank transaction with management and those charged with governance in order to assess the substance of the transaction; and
assessing management's accounting treatment and confirming that the substance of the Citibank transaction is appropriately reflected in the consolidated financial statements of the Group in accordance with IFRS.

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</table>

The agreements give rise to a number of accounting considerations, particularly in relation to the consolidation of Lambeth, the recognition of loans advanced, the Loan payable to Citibank and the recognition of the associated income and expenses.	We found that that accounting treatment of the Citibank transaction was in accordance with IFRS.

Other information

The directors are responsible for the other information. The other information comprises the Financial Highlights, 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters 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.
- 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.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF FUNDING CIRCLE SME INCOME FUND LIMITED

- 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 consolidated 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 consolidated 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
11 July 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £	2017 £
Operating income			
Interest income on loans advanced	4	28,359,186	17,326,262
Bank interest income		133,350	18,695
		28,492,536	17,344,957
Operating expenditure			
Net realised and unrealised loss on foreign exchange	16	1,419,342	196,849
Impairment of loans	4	5,085,333	3,282,919
Loan servicing fees	15	2,213,848	1,212,411
Company administration and secretarial fees	15	372,382	224,985
Directors' remuneration and expenses	14	194,176	258,410
Audit, audit-related and non-audit related fees	15	227,439	184,309
Corporate broker services		155,190	68,003
Corporate services fees	15	239,338	145,670
Regulatory fees		44,844	60,590
Advisory services fees		240,480	—
Loan interest payable	4	242,908	
Legal fees		358,719	366,442
Other operating expenses		458,923	263,357
		11,252,922	6,263,945
Operating profit for the year before taxation		17,239,614	11,081,012
Taxation	11	(500)	(500)
Total comprehensive income for the year		**17,239,114**	**11,080,512**
Earnings per share			
Basic and diluted	12	**8.41p**	**6.93p**

		Number of shares	Number of shares
Weighted average number of shares outstanding			
Basic and diluted	12	205,036,341	159,874,926

Other comprehensive income

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

The Notes on pages 34 to 53 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2018

	Notes	31 March 2018 £	31 March 2017 £
ASSETS			
Cash and cash equivalents	6	33,381,211	12,331,519
Margin account held with bank	7	-	270,000
Other receivables and prepayments		220,715	371,919
Fair value of currency derivatives	7	1,327,404	239,253
Loans advanced	4	330,607,047	155,881,911
TOTAL ASSETS		**365,536,377**	**169,094,602**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	303,795,869	161,916,399
Retained earnings		4,524,566	2,835,892
TOTAL SHAREHOLDERS' EQUITY		**308,320,435**	**164,752,291**
LIABILITIES			
Loan payable	4	50,000,000	-
Accrued expenses and other liabilities	8	7,215,942	4,342,311
TOTAL LIABILITIES		**57,215,942**	**4,342,311**
TOTAL EQUITY AND LIABILITIES		**365,536,377**	**169,094,602**
NAV per share outstanding		**100.18p**	**99.87p**

The consolidated financial statements on pages 30 to 53 were approved and authorised for issue by the Board of Directors on 11 July 2018 and were signed on its behalf by:

Richard Boléat
Chairman

Jonathan Bridel
Chairman of the Audit Committee

The Notes on pages 34 to 53 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	Share capital £	Retained earnings £	Total £
Balance at 1 April 2017		161,916,399	2,835,892	164,752,291
Issue of Shares	9,10	142,000,000	—	142,000,000
Share issue costs	9,10	(2,130,000)	—	(2,130,000)
Scrip dividends issued	10	2,009,470	—	2,009,470
Dividends declared	13	—	(15,550,440)	(15,550,440)
Total comprehensive income for the year		—	17,239,114	17,239,114
Balance at 31 March 2018		**303,795,869**	**4,524,566**	**308,320,435**

Balance at 1 April 2016		147,000,000	1,276,617	148,276,617
Issue of Shares		14,503,561	—	14,503,561
Share issue costs		(290,071)	—	(290,071)
Scrip dividends issued		702,909	—	702,909
Dividends declared		—	(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**

The Notes on pages 34 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 £	2017 £
Operating activities			
Total comprehensive income for the year		17,239,114	11,080,512
Adjustments for:			
Tax expense		500	500
Foreign exchange loss/(gain)	16	8,687,125	(6,160,023)
Interest income on loans advanced		(28,359,186)	(17,326,262)
Impairment of loans	4	5,085,333	3,282,919
Fair value movement of currency derivatives	7,16	(1,088,150)	(241,685)
Operating cash flows before movements in working capital		1,564,736	(9,364,039)
Loans advanced	4	(286,359,394)	(112,660,710)
Principal and interest collections on loans advanced	4	127,292,985	67,311,190
Decrease/(increase) in other receivables and prepayments		151,204	(146,236)
Increase in accrued expenses and other liabilities		367,967	85,031
Decrease in collateral for currency derivatives	7	270,000	340,000
Net cash used in operating activities		(156,712,502)	(54,434,764)
Financing activities			
Proceeds from issue of Shares	9	142,000,000	14,503,561
Initial costs of issue of Shares	9	(2,130,000)	(290,071)
Loans raised		50,000,000	—
Dividends paid		(11,220,870)	(6,137,564)
Net cash from financing activities		178,649,130	8,075,926
Net increase/(decrease) in cash and cash equivalents		21,936,628	(46,358,838)
Cash and cash equivalents at the beginning of the year		12,331,519	56,757,244
Foreign exchange (losses)/gain on cash and cash equivalents		(886,936)	1,933,113
Cash and cash equivalents at the end of the year		**33,381,211**	**12,331,519**

The Notes on pages 34 to 53 form part of these consolidated financial statements.

1. GENERAL INFORMATION

The Company is a closed-ended limited liability company registered under The Companies (Guernsey) Law, 2008 (as amended) with registered number 60680. The Company is a registered collective investment scheme in Guernsey and its 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 Platforms 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 Platform 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 on its website at www.fcincomefund.com.

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 Standard 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") adopted in the current year

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. The Group had no liabilities arising from financing activities during the year, apart from dividends payable (refer to note 8).

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.

The Group will adopt IFRS 9 in its financial statements for the annual period beginning on 1 April 2018. The key changes from the adoption of IFRS 9 are set out below:

Classification and measurement

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

Upon implementation of IFRS 9, the Group's investment in the EIB structured finance transaction will be reclassified from amortised cost financial assets to financial assets at fair value through profit or loss. This investment has exposure to returns that is affected by the profitability of the underlying SPV. The Directors believe that the contractual cash flows are not solely linked to payments of principal and interest consistent with a basic lending arrangement.

Direct loans originated by the Group and in the Citibank structured finance transaction will continue to be reported as financial assets measured at amortised cost.

2. BASIS OF PREPARATION – (CONTINUED)

a) Statement of compliance – (continued)

<u>*New Accounting Standards, amendments to existing Accounting Standards and/or interpretations of existing Accounting Standards (separately or together, "New Accounting Requirements") not yet adopted – (continued)*</u>

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

<u>Impairment</u>

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model in the measurement of impairment loss. The overall effect of the change from IAS 39 to IFRS 9 is that the assessment of impairment loss is intended to be more forward looking under IFRS 9. At initial recognition, an impairment allowance is required for expected credit losses ("ECL") resulting from possible default events within the next 12 months. When an event occurs that increases the credit risk of the counterparty, an allowance is required for ECL for possible defaults over the term of the financial instrument. The change in credit risk of the counterparty will also have an impact to the recognition of income on the financial asset.

The following table summarises the changes in ECL and basis of interest income recognition based on the 'stage' of the financial assets.

	ECL	**Basis for calculating interest income**
Stage 1 - no change in credit risk	12-month	Gross outstanding principal
Stage 2 – significant increase in credit risk but not yet defaulted	Lifetime	Gross outstanding principal
Stage 3 – default	Lifetime	Principal less impairment

The impairment requirements of IFRS 9 apply to the Group's loans and receivables. The Board has built a custom model for estimating impairment losses that complies with the requirements of IFRS 9. Taking into account the effect of the reclassification of the Group's investment in structured finance transactions and adoption of the new impairment model, the implementation of IFRS 9 led to a one-off decrease in the Group's net asset value of (1.1)% as at 30 April 2018 (the first reporting date for monthly Net Asset Values ("NAVs") following the implementation of IFRS 9).

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 16.

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. Basinghall retains substantially all of the risks and rewards of the underlying portfolio of the loans transferred to Lambeth. The Directors believe that the Company's ownership of the Profit Participating Notes issued by Basinghall and Tallis and the substantial retention of the risks and rewards on the underlying loan portfolio held by Lambeth constitute control as it exposes the Company to variability of returns from its involvement with the financial and operating activities of these entities. Therefore, these financial statements have been prepared on a consolidated basis. Intercompany transactions including intercompany gains and losses on currency translation between the Company and its subsidiaries were eliminated in the consolidation process.

c) Functional and presentation currency

These financial statements are presented in Pound Sterling, which is the functional currency of each of the entities in the Group and the presentation currency of the Group. In the Directors' opinion, the Pound Sterling is the functional currency of the Company, Basinghall and Lambeth 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.

2. BASIS OF PREPARATION – (CONTINUED)

d) Use of estimates and judgements – (continued)

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(b) – The accounting treatment of Lambeth as a consolidated subsidiary based on the assessment that the retention of substantially all of the risks and rewards on the underlying portfolio of loans sold by Basinghall to Lambeth is deemed to constitute control as it exposes the Group to variability of returns from its involvement with the financial and operating activities of Lambeth.
- Note 2(c) – One of the subsidiaries has its primary assets and liabilities denominated in Euro. The Directors assessed whether the functional currency is the Euro or Pound Sterling. The subsidiary's operations are considered to be an extension of the operations of the Company and therefore the Directors believe that the appropriate functional currency for the subsidiary is Pound Sterling, the functional currency of the Company.
- Note 3(b) – The estimation of impairment of loans require judgement in determining the present value of the expected future cash flows after an impairment trigger has been identified. In relation to the investment in notes issued by the Irish SPVs (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 notes.
- 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 16 – 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 fair value of the EIB transaction has been estimated by discounting future cash flows from the investment (note 16). 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 for loans and receivables on the Consolidated Statement of Financial Position.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Foreign currencies

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

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

b) Financial instruments

i) 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.

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

b) Financial instruments – (continued)

ii) Impairment of financial assets (continued)

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

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

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 original maturities of three months or less.

d) Share capital

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

Shares issued under the scrip dividend scheme are recognised at the reference price. The calculation of the reference price is disclosed in more detail in Note 13.

On 7 April 2017, the Company raised £142 million of capital through the placing of C shares. When in issue, the net assets attributable to the C shares are accounted for and managed by the Company as a distinct pool of assets. The Company manages separate cash accounts and investment portfolios for the C shares and expenses are either specifically invoiced to the appropriate share class or split proportionally based on the net asset value of each share class. The C shares were converted to Ordinary shares on 18 December 2017 (note 9).

e) Treasury shares

Treasury shares are classified as equity.

f) Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its Ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to Ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year. The diluted EPS is calculated by adjusting the profit or loss attributable to Ordinary shareholders for the effects of all dilutive potential Ordinary shares. For further details, see Note 12.

g) Income

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

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

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

h) Expenses and fees

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

3. SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

i) Taxation

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

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

The tax currently payable by Basinghall, Tallis and Lambeth 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.

j) Dividends payable

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

k) Segment reporting

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

4. LOANS ADVANCED

	31 March 2018	**31 March 2017**
	£	**£**
Balance at the beginning of the year	155,881,911	94,764,065
Advanced	286,841,227	110,193,869
Interest income	28,062,416	17,326,262
Principal and interest collections	(127,292,985)	(67,345,776)
Impairment allowance for the year	(5,085,333)	(3,282,919)
Foreign exchange (losses)/gains	(7,800,189)	4,226,410
Balance at the end of the year	**330,607,047**	**155,881,911**

The Group predominantly makes unsecured loans. As at 31 March 2018, the carrying value of loans secured by charges over properties is £5,453,709 (31 March 2017: £14,815,953).

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.

4. LOANS ADVANCED – (CONTINUED)

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

	31 March 2018		31 March 2017	
	Principal and interest	**Impairment allowance**	**Principal and interest**	**Impairment allowance**
Past due between 30 days and 60 days	2,607,927	909,874	711,376	255,566
Past due between 61 days to 90 days	1,310,204	672,947	263,985	164,067
Past due for over 90 days	249,382	210,290	19,353	11,999
Defaulted (net of recoveries)	8,495,100	6,605,333	3,727,505	2,881,479
	12,662,613	**8,398,444**	**4,722,219**	**3,313,111**

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

	31 March 2018	31 March 2017
	£	**£**
Impairment allowance at beginning of the year	3,313,111	30,192
Additional impairment allowance	5,085,333	3,282,919
Impairment allowance at the end of the year	**8,398,444**	**3,313,111**

Structured Finance Transactions

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

The interest income earned on the EIB transaction (included in the total interest income within the Consolidated Statement of Comprehensive Income) during the year was £4,382,029 (2017: £4,139,377), of which £2,178,954 (included in loans advanced) was outstanding as at 31 March 2018 (2017: £3,134,573).

In January 2018, the Company entered into the Citibank transaction to establish a vehicle, Lambeth that will make loans to UK small business loans through the UK Platform. Under the terms of the transaction, Citibank provided £50 million by entering into a senior floating rate loan with Lambeth. The Group contributed a portfolio of existing UK small business loans at par value.

The funding of Lambeth and the related effect to the Group entities are:

- Lambeth receives £50 million from Citibank under the senior loan agreement;
- Lambeth used £49.5 million of the proceeds from the senior loan to purchase a portfolio of UK SME loans with the same amortised cost value from Basinghall; and
- Basinghall invested into the Class B Note issued by Lambeth by transferring a portfolio of loans with an amortised cost amount of £53,472,022. The Class B Note has not been presented separately as Lambeth has been consolidated into the Group.

Subsequent to the initial transaction described above, Lambeth redeemed £385,200 of the Class B Note issued to Basinghall.

Basinghall used the proceeds of £49.5 million received from the sale of the loan portfolio to Lambeth to redeem an equivalent nominal amount of its own Profit Participating Notes issued to the Company.

The interest incurred by the Group on the Citibank senior loan during the year was £242,908 of which £65,807 was outstanding as at 31 March 2018. The interest payable has been presented separately within accrued expenses and other liabilities on the Consolidated Statement of Financial Position.

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 ceased originating loans in Spain from January 2017.

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

Segment performance for the year ended 31 March 2018

	UK	US	CE	Other income and expenses	Consolidated
	£	£	£	£	£
Total revenue	18,168,596	8,931,025	1,259,565	133,350	28,492,536
Profit/(loss) before finance costs	13,768,690	4,163,636	593,280	(1,285,992)	17,684,372

Segment assets and liabilities as at 31 March 2018

	UK	US	CE	Other assets and liabilities	Consolidated
	£	£	£	£	£
Assets	217,650,034	125,192,495	21,145,729	1,548,119	365,536,377
Liabilities	(50,279,960)	(90,639)	(15,978)	(6,829,365)	(57,215,942)

Segment performance for the year ended 31 March 2017

	UK	US	CE	Other income and expenses	Consolidated
	£	£	£	£	£
Total revenue	11,794,954	5,233,194	298,114	18,695	17,344,957
Profit/(loss) before finance costs	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	Other assets and liabilities	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)	(2,902,394)	(4,342,311)

The Company is domiciled in Guernsey whilst Basinghall, Tallis and Lambeth are domiciled in Ireland. The Group earned £4,382,029 interest income as a result of the EIB transaction during the year. All other income was earned from SME borrowers in the UK, US and CE.

6. CASH AND CASH EQUIVALENTS

	31 March 2018 £	31 March 2017 £
Cash at bank	10,151,333	4,548,149
Cash equivalents	23,229,878	7,783,370
Balance at the end of the year	**33,381,211**	**12,331,519**

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 16). 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"), Goldman Sachs International ("GS") and Northern Trust ("NT"). The Group negotiated the terms of the contracts with RBSI and NT 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 2018 £	Fair value 31 March 2017 £
Margin account held with GS	-	270,000
	-	**270,000**

(b) Fair value of currency derivatives

	Fair value 31 March 2018 £	Fair value 31 March 2017 £
Valuation of currency derivatives	1,327,404	239,253
	1,327,404	**239,253**

	Fair value 31 March 2018 (£)	Nominal of outstanding contracts 31 March 2018 (Currency)
Euro	190,286	24,159,000
USD	1,137,118	152,026,000
Total	**1,327,404**	

	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
Fair value of currency derivatives	**239,253**	

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 March 2018	31 March 2017
	£	£
Dividends payable	5,000,864	2,680,764
Payable for loans committed but not yet funded	1,469,240	1,284,176
Service fees payable	284,141	104,773
Audit fees payable	169,340	128,831
Legal fees payable	173,288	54,724
Administration fees payable	37,894	-
Loan interest payable (see note 4)	65,807	-
Taxation payable	500	500
Other liabilities	14,868	88,543
	7,215,942	**4,342,311**

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. ISSUE OF C SHARES

On 7 April 2017, the Company issued 142,000,000 C shares at a price of £1 per share raising net proceeds of £139,870,000 after direct issue costs of £2,130,000. Whilst the C shares were in issue, the results, assets and liabilities attributable to the C shares were accounted for as a separate pool to the results, assets and liabilities attributable to the Ordinary shares. A share of the Group's expenses for the period during which the C shares were in issue were allocated to the C share pool based on the relative proportions of total net assets of each share class pool.

The C shares were converted to Ordinary shares on 20 December 2017 in accordance with the Company's prospectus dated 6 February 2017. The net assets attributable to the Ordinary shares and the C shares as at the Calculation Date, being the close of business on 18 December 2017, were 99.83p per share and 99.01p per share respectively.

The C shares were converted at a ratio of 0.9917031 Ordinary shares in respect of each C share. This resulted in the issue of 140, 821,840 new Ordinary shares. The table below shows the movement in C shares during the year:

Issued and fully paid	**Number of shares**	**Shares issued amount**	**Issue costs**	**Net Shares amount**
C shares		**£**	**£**	**£**
At 31 March 2017	—	—	—	—
Issue of C shares	142,000,000	142,000,000	(2,130,000)	139,870,000
Converted to Ordinary shares	(142,000,000)	(142,000,000)	2,130,000	(139,870,000)
At 31 March 2018	—	—	—	—

10. SHARE CAPITAL

Issued and fully paid	**Number of shares**	**Shares issued amount**	**Issue costs**	**Net Shares amount**
Ordinary shares		**£**	**£**	**£**
At 31 March 2017	164,970,063	165,206,470	(3,290,071)	161,916,399
C shares converted to Ordinary shares (note 9)	140,821,840	142,000,000	(2,130,000)	139,870,000
Issue of shares – scrip dividends	1,953,598	2,009,470	—	2,009,470
Issue of shares – treasury (see below)	—	—	—	—
At 31 March 2018	**307,745,501**	**309,215,940**	**(5,420,071)**	**303,795,869**

10. SHARE CAPITAL – (CONTINUED)

In February 2018, the Company issued 24,928,394 new Ordinary shares at a price of 100.23 pence per share to Numis Securities Limited, the Company's corporate broker, and immediately repurchased them at the same price to be held in treasury. The net cash position of the Company following these transactions remained unchanged.

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

Rights attaching to the Ordinary share class

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

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

11. TAXATION

	31 March 2018	31 March 2017
	£	£
Operating profit before taxation	17,239,614	11,081,012
Tax at the standard Guernsey income tax rate of 0%	—	—
Effects of tax rates in other jurisdictions	(500)	(500)
Taxation expense	**(500)**	**(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 2018, Basinghall, Tallis and Lambeth which are consolidated into the Group's results were subject to a corporation tax rate of 25% in Ireland.

12. EARNINGS PER SHARE ("EPS")

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

	31 March 2018	31 March 2017
	£	£
Profit for the purposes of basic and diluted EPS	17,239,114	11,080,512
Weighted average number of shares for the purposes of EPS:		
Basic and diluted	205,036,341	159,874,926
Basic and diluted EPS	**8.41p**	**6.93p**

13. DIVIDENDS

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

	Date declared	Ex-dividend date	Per share	Total	Number of shares issued as
			Pence	£	scrip dividend
Ordinary shares					
Interim dividend	15 June 2017	22 June 2017	1.625	2,690,707	606,999
Interim dividend	14 September 2017	21 September 2017	1.625	2,700,570	70,467
Interim dividend	7 December 2017	14 December 2017	1.625	2,701,699	663,896
Interim dividend*	14 March 2018	22 March 2018	1.625	5,000,864	1,403,711
C shares					
Interim dividend**	20 November 2017	30 November 2017	1.73	2,456,600	—
Total				**15,550,440**	**2,745,073**

** The scrip dividends shares were issued on 30 April 2018.*

*** This relates to C shares which were subsequently converted to Ordinary shares on 20 December 2017.*

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

14. DIRECTORS' REMUNERATION AND EXPENSES

	31 March 2018	31 March 2017
	£	£
Directors' fees	171,484	251,965
Directors' expenses	22,692	6,445
	194,176	**258,410**

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.

15. FEES AND EXPENSES

Loan origination and servicing

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

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

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

Funding Circle UK is entitled to receive loan servicing fees equal to 1 per cent. per annum, calculated daily, on the aggregate outstanding principal balance of the portfolio of loans held by each of Basinghall and Lambeth excluding any loans which have been charged off as defined in the Servicing Agreement. Servicing fees to Funding Circle UK of £1,341,481 were incurred during the year (2017: £770,131 from Basinghall only). Servicing fees outstanding as at 31 March 2018 were £234,731 (2017: £66,085 from Basinghall only).

15. FEES AND EXPENSES – (CONTINUED)

Loan origination and servicing – (continued)

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 accrued from the date on which the Group made investments in respect of loans in an amount equal to 80 per cent. of the gross IPO issue proceeds of £150 million. During the year ended 31 March 2018, £239,338 (2017: £145,670) was incurred under the Services Agreement. Corporate servicing fees outstanding as at 31 March 2018 was £26,453 (2017: £14,138).

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 £749,060 were incurred during the year (2017: £410,762). Servicing fees outstanding as at 31 March 2018 were £90,639 (2017: £33,778).

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

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

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

Funding Circle CE receives servicing fees for Funding Circle Netherlands, Funding Circle Spain and Funding Circle Deutschland GmbH as per the sub-contracting agency agreement. Servicing fees to Funding Circle CE during the year amounted to £123,302 (2017: £31,518). Servicing fees outstanding as at 31 March 2018 were £15,978 (2017: £4,910).

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 year.

Administration, company secretarial and cash management

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

Sanne Guernsey is entitled to receive an annual fee equal to five basis points of the net asset value of the Group subject to a minimum amount of £85,000. Administration fees of £229,343 were incurred during the year (2017: £120,172). There were no administration fees outstanding as at 31 March 2018 and 2017.

Sanne Capital Markets Ireland Limited ("Sanne Ireland") has been appointed as Administrator to Basinghall, Tallis and Lambeth and is entitled to receive an annual fee for each entity of £45,000. Administration fees of £87,470 were incurred during the year (2017: £104,813 (including fees for additional work performed). There were no administration fees outstanding as at 31 March 2018 and 31 March 2017.

Registrar

Link Asset Services (the "Registrar") has been appointed as the Company's Registrar to undertake maintenance of the statutory books of the Company and to perform such related activities as are required to carry out the registrar function. The Registrar is entitled to an annual maintenance fee per shareholder subject to a minimum charge of £4,500 per annum. Registrar service fees of £57,336 were incurred during the year (2017: £39,203). Registrar service fees outstanding as at 31 March 2018 amounted to £nil (2017: £nil).

Currency management fee

Record Currency Management Limited has been appointed as currency manager. The currency manager is entitled to fees calculated based on the GBP equivalent amount of the US Dollar and EUR denominated exposure being hedged within the Group's portfolio. Fees of £74,657 were incurred during the year (2017: £35,661). Fees outstanding as at 31 March 2018 amounted to £nil (2017: £nil).

15. FEES AND EXPENSES – (CONTINUED)

Audit, audit related and non-audit related services

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

	31 March 2018		31 March 2017	
Type of service	**PwC CI**	**PwC Ireland**	**PwC CI**	**PwC Ireland**
	£	**£**	**£**	**£**
Audit of the financial statements	97,732	68,833	107,564	30,763
Review of half-yearly financial statements	21,450	—	20,000	—
Tax related services	—	12,424	—	10,981
Other non-audit services*	27,000	—	15,000	—
	146,182	**81,257**	**142,564**	**41,744**

* This includes £15,000 paid to PwC UK for assistance with the implementation of IFRS 9.

16. 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 Credit Assets purchased by the Group. Failure of Funding Circle's Platform or inconsistent operational effectiveness of the internal controls at Funding Circle may result in financial losses to the Group.

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

ii) Market risk

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

The Board of Directors regularly reviews the Credit Assets 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 balances and indirectly on the pricing of and returns from Credit Assets. This may also impact on the disclosed fair values of the investments into the EIB transaction.

Loans are held by the Group at amortised cost and bear fixed interest rates. The Board has not performed an interest rate sensitivity analysis on these loans as they are intended to be held until maturity and bear fixed interest rates. Financial instruments with floating interest rates that reset as market rates change are exposed to cash flow interest rate risk. As at 31 March 2018, the Group had £33.38 million (31 March 2017: £12.33 million) of the total assets classified as cash and cash equivalents with floating interest rates. At 31 March 2018, 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 £83,453 (31 March 2017: £30,829). The Board of Directors believes that a change in interest rate of 25 basis points is a reasonable measure of sensitivity in interest rates based on their assessment of market interest rates at the year end.

The 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. However, the Group's portfolio of Credit Assets is dynamic and the pricing of new loans made from time to time to which the Group becomes exposed will take account of prevailing risk-free rates at the time of the making of a loan.

The relationship between changing risk-free rates and loan pricing will not generally be linear and will be affected by other factors, such as changes in demand for loans, credit conditions generally and the action of other market participants with whom the Platforms compete.

16. FINANCIAL RISK MANAGEMENT – (CONTINUED)

ii) Market risk – (continued)

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

Aside from GBP, the Group 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 swaps to seek to hedge the currency exposure of the Group arising from US Dollar and Euro denominated investments.

The currency risk of the Group's non-GBP monetary financial assets and liabilities as at 31 March 2018 including the effect of a change in exchange rates by 5% is shown below. The effect of a 5% change shown below apply as an increase (for favourable change in currency rates) or a decrease (for unfavourable change in currency rates) to the reported amounts of the assets and liabilities of the Group. The Directors believe that a change of 5% in currency exchange rates is a reasonable measure of sensitivity based on available data on currency rates at the year end.

	Carrying amount as at 31 March 2018	Effect of a 5% change in currency rate	Carrying amount as at 31 March 2017	Effect of a 5% change in currency rate
	£	£	£	£
US Dollar	112,932,690	5,646,634	42,366,295	2,118,315
Euro	21,799,227	1,089,961	8,146,630	407,332
Total	**134,731,917**	**6,736,595**	**50,512,925**	**2,525,647**

The Group's exposure has been calculated as at the year end and may not be representative of the year as a whole. Furthermore, the above currency risk estimate does not take into account the effect of the Group's foreign exchange hedging policy. The net foreign exchange loss charged to the Consolidated Statement of Comprehensive Income during the year was GBP 1,419,342 (2017: GBP 196,849) which represents:

	31 March 2018	31 March 2017
	£	£
Unrealised foreign currency gains	6,873,352	13,973,196
Unrealised foreign currency losses	(15,560,477)	(7,813,173)
Realised gains on currency derivatives	7,988,617	1,037,941
Realised losses on currency derivatives	(1,808,984)	(7,636,498)
Unrealised fair value gains on currency derivatives	1,088,150	241,685
	(1,419,342)	**(196,849)**

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

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

16. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iii) Liquidity risk – (continued)

Maturity profile

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

As at 31 March 2018

	Within one year	One to five years	Over five years	Total
	£	£	£	£
Financial assets				
Cash and cash equivalents	33,381,211	—	—	27,556,197
Loans advanced	99,350,712	231,256,332	—	330,607,044
Fair value of currency derivatives	1,327,404	—	—	1,327,404
Other receivables	191,338	—	—	191,338
	134,250,665	231,256,332	—	365,506,997

	Within one year	One to five years	Over five years	Total
	£	£	£	£
Financial liabilities				
Accrued expenses and other liabilities	7,215,942	—	—	7,215,942
	7,215,942	**—**	**—**	**7,215,942**

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	371,919	—	—	371,919
	64,762,610	**104,331,992**	**—**	**169,094,602**

As at 31 March 2017

Financial liabilities				
Accrued expenses and other liabilities	4,342,311	—	—	4,342,311
	4,342,311	**—**	**—**	**4,342,311**

iv) Credit risk and counterparty risk

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

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

Credit quality

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

16. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iv) Credit risk and counterparty risk (continued)

Credit quality – (continued)

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

	Carrying value 31 March 2018	% of Carrying value 31 March 2018	Carrying value 31 March 2017	% of Carrying value 31 March 2017
Internal grade	**£**	**%**	**£**	**%**
A+	83,294,637	25.19	38,900,209	24.95
A	88,995,938	26.92	38,637,295	24.79
B	64,776,731	19.59	27,987,038	17.95
C	41,562,771	12.57	15,178,806	9.74
D	19,088,337	5.77	5,365,261	3.44
E	5,709,679	1.73	1,678,729	1.08
Not graded*	27,178,954	8.23	28,134,573	18.05
	330,607,047	**100.00**	**155,881,911**	**100.00**

** - EIB Transaction. The investments of the EIB SPV are loans originated in the UK.*

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

Allocation limits

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

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

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

Banking counterparties

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

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

16. FINANCIAL RISK MANAGEMENT – (CONTINUED)

iv) Credit risk and counterparty risk (continued)

Banking counterparties – (continued)

The Group held cash with the following financial institutions:

	Amount as at 31 March 2018 £	Short term credit rating (S&P)	Amount as at 31 March 2017 £	Short term credit rating (S&P)
HSBC	5,432,698	A-1+	647,039	A-1+
Santander	2,500,000	A-1	5,900,000	A-1
Barclays	25,448,513	A-2	4,336,269	A-2
Lloyds	—	A-1	1,448,211	A-1
Total	**33,381,211**		**12,331,519**	

In addition, the Group uses forward foreign currency transactions to seek to minimise the Group's exposure to changes in foreign exchange rates. The Group is exposed to counterparty credit risk in respect of these transactions. The Board of Directors employs various techniques to limit actual counterparty credit risk, including the requirement for cash margin payments or receipts for foreign currency derivative transactions on a regular basis. As at year end, the Group's derivative counterparties were RBSI and Northern Trust. The long term-credit rating of RBSI as at 31 March 2018 assigned by Moody's was Baa3 (31 March 2017: Ba1). The long term-credit rating of Northern Trust as at 31 March 2018 assigned by Moody's was AA-. The Directors monitor the credit quality of these banking counterparties on a regular basis.

v) Fair value estimation

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes "observable" requires significant judgement by the Group. The Group considers observable 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 2018 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 2018. The fair value of the currency derivatives held by Northern Trust was estimated by Northern Trust based on the GBP-EUR forward exchange rate and the GBP-EUR spot rate as at 31 March 2018.

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

16. FINANCIAL RISK MANAGEMENT – (CONTINUED)

v) 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 2018 but for which fair value is disclosed:

	31 March 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Loans advanced	—	—	331,583,786	331,583,786
Cash and cash equivalents	33,381,211	—	—	33,381,211
Other receivables and prepayments	—	220,715	—	220,715
Loans payable	—	—	(50,000,000)	(50,000,000)
Accrued expenses and other liabilities	—	(7,215,942)	—	(7,215,942)
	33,381,211	**(6,995,227)**	**281,583,786**	**307,969,770**

	31 March 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Loans advanced	—	—	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	—	371,919	—	371,919
Accrued expenses and other liabilities	—	(4,342,311)	—	(4,342,311)
	12,601,519	**(3,970,392)**	**155,881,911**	**164,513,038**

The Board of Directors believe that the carrying values of the above instruments approximate their fair values. The fair values of loans advanced and the loan payable are estimated to be approximate to the carrying values as the Directors believe that the effect of re-pricing between origination date and the date of this report is not material. The fair value of the EIB transaction has been estimated by discounting future cash flows from the investment using a discount rate of 16.88% which the Directors believe to be an appropriate reflection of market interest rate for the type of loans at the reporting date. The estimated fair value and carrying amount of the EIB transaction were £28,155,693 and £27,178,954 respectively at 31 March 2018.

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

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

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 Board issued treasury shares during the year in accordance with its capital management policy (note 10).

The Group is not subject to externally imposed capital requirements. However, certain calculations on the employment of leverage are required under the AIFMD. This directive requires more information to be reported if the Group's leverage exceeds three times its net asset value. As at 31 March 2018, the Group used leverage through the EIB and Citibank Transactions but did not exceed the threshold within the directive and therefore did result in a change of the reporting requirements as prescribed by AIFMD.

17. 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

17. RELATED PARTY DISCLOSURE – (CONTINUED)

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 2017, waived his fees for the period of his tenure.

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.

The Directors held the following number of shares as at 31 March 2018 and 31 March 2017:

	As at 31 March 2018		As at 31 March 2017	
	Number of shares	**% of total shares in issue**	**Number of shares**	**% of total shares in issue**
Richard Boléat	5,000	0.0024	5,000	0.0030
Jonathan Bridel	5,000	0.0024	5,000	0.0030
Richard Burwood	5,000	0.0024	5,000	0.0030
Samir Desai (resigned on 18 May 2017)	N/A	N/A	148,138	0.0927
Frederic Hervouet	107,000	0.0522	107,000	0.0669
Sachin Patel (appointed on 18 May 2017)	—	—	N/A	N/A
	122,000	**0.0594**	**270,138**	**0.1686**

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

The Directors delegate certain functions to other parties. In particular, the Directors have appointed Funding Circle UK, Funding Circle US, Funding Circle Netherlands 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 2018** £	**Payable as at 31 March 2018** £	**Expense during the year ended 31 March 2017** £	**Payable as at 31 March 2017** £
Funding Circle UK	Servicing fee	1,341,486	151,071	770,131	66,085
Funding Circle UK	Corporate services fee	239,338	26,453	145,670	14,138
Funding Circle UK	Reimbursement of expenses	198,010	7,193	56,955	31,309
Funding Circle US	Servicing fee	749,060	90,639	410,762	33,778
Funding Circle CE	Servicing fee	123,302	15,978	31,518	4,910

18. INVESTMENT IN SUBSIDIARIES

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

	Country of incorporation	Principal activity	Transactions	Outstanding amount as at 31 March 2018 £	Outstanding amount as at 31 March 2017 £
Basinghall Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in the UK	Subscription of notes issued	128,438,860	80,415,760
Tallis Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in Germany, the Netherlands and Spain*	Subscription of notes issued	20,674,883	8,110,154
Lambeth Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in UK	Subscription of notes issued	53,086,822	-
				202,200,565	**88,525,914**

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

19. SUBSEQUENT EVENTS

On 30 April 2018, the Company issued scrip dividends of 1,403,711 Ordinary shares which were listed on the London Stock Exchange.

On 1 May 2018, the Company's Ordinary shares (24,928,394) held in Treasury (the "Treasury shares") were made available to meet market demand from existing and new investors. The sale price per Treasury share was 102.20 pence, representing a discount of 2.2% to the Ordinary share price as at close of trading on 30 April 2018 and a premium to the estimated NAV per Ordinary share (after a provision for IFRS 9 adjustments) of 2-3%.The sale raised gross proceeds of approximately £25.5 million.

On 13 June 2018, the Board declared a dividend of 1.625 pence per Ordinary share payable on 31 July 2018 to shareholders on the register as at the close of business on 22 June 2018 and the corresponding ex-dividend date of 21 June 2018.

On 29 June 2018, after careful review of the effects to the total return of the material increase in hedging costs on the Company's USD-denominated assets and the leverage employed, the Company provided revised forward dividend guidance for the next 12 months, being a fully covered annual dividend of 5 to 6 pence per Ordinary share with effect from the quarter ended 30th September 2018.

BOARD OF DIRECTORS

Richard Boléat

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

Richard Boléat was born in Jersey in 1963. He is a Fellow of the Institute of Chartered Accountants in England & Wales, having trained with Coopers & Lybrand in Jersey and the United Kingdom. After qualifying in 1986, he subsequently worked in the Middle East, Africa and the UK for a number of commercial and financial services groups before returning to Jersey in 1991. He was formerly a Principal of Channel House Financial Services Group from 1996 until its acquisition by Capita Group plc ("Capita") in September 2005. Mr Boléat led Capita's financial services client practice in Jersey until September 2007, when he left to establish Governance Partners, L.P., an independent corporate governance practice. He currently acts as Chairman of CVC Credit Partners European Opportunities Limited and Phaunos Timber Fund Limited, both of which are 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 a Director of Phaunos Timber Fund Limited which is currently in wind up. He is also Chairman of DP Aircraft 1 Limited and a director of Fair Oaks Income Fund Limited. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. He is a Chartered Accountant and has specialised in Corporate Finance and Credit. After qualifying as a Chartered Accountant in 1987, Mr Bridel worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. This included heading up an SME Lending business for a major bank in South Australia. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Mr Bridel is a Chartered Marketer and a member of the Chartered Institute of Marketing, a Chartered Director and a member of the Institute of Directors and is a Chartered Fellow of the Chartered Institute for Securities and Investment.

Richard Burwood

Management Engagement Committee Chairman, Non-executive Director

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

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

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

Frederic Hervouet

Risk Committee Chairman, Non-executive Director

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 is a non-executive director of Tetragon Financial Group which is listed on Euronext and Chenavari Toro Income Fund Limited which is listed on the SFM on LSE.

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.

BOARD OF DIRECTORS

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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Company registration number: 60680
(Guernsey, Channel Islands)

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Company Secretary and Administrator
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Legal advisors as to Guernsey Law
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Corporate broker and Bookrunner and Sponsor
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United Kingdom

UK Transfer Agent and Receiving Agent
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Registrar
Link Market Services (Guernsey) Limited (formerly Capita Registrars (Guernsey) Limited)
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Independent Auditor
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Royal Bank Place
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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; (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
"CE"	Continental Europe
"Company Secretary"	Sanne Group (Guernsey) Limited
"Credit Assets"	loans or debt or credit instruments of any type originated through any of the Platforms
"Funding Circle"	Funding Circle UK, Funding Circle US, Funding Circle CE or either of their respective Affiliates (as defined in the Prospectus of the Company), or any or all of them as the context may require
"Funding Circle CE"	Funding Circle CE GmbH and Funding Circle Deutschland GmbH
"Funding Circle Netherlands"	Funding Circle Nederlands B.V.
"Funding Circle Spain"	Funding Circle Espaňa SLU

GLOSSARY

“Funding Circle UK”	Funding Circle Limited
“Funding Circle US”	FC Platform, LLC
“NAV Total Return”	A measure of performance showing how the NAV per Ordinary share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. It assumes that dividends paid to shareholders are reinvested at NAV at the time the shares are quoted ex-dividend. Opening NAV in November 2015 was 98.00p, after initial costs.
“Near Affiliates”	the relevant Irish subsidiary of the Company and any other SPV or entity which, not being an Affiliate of the Company, has been or will be formed in connection with the Company’s direct or indirect investment in Credit Assets and which (save in respect of any nominal amounts of equity capital) is or will be financed solely by the Company or any Affiliate of the Company
“Note” or “Profit Participating Note”	notes issued by Basinghall Lending Designated Activity Company and Tallis Lending Designated Activity Company under their separate note programmes
“Origination Agreements"	the German Origination Agreement, the Dutch Origination Agreement, the Spanish Origination Agreement, the UK Origination Agreement, the US Origination Agreement, and the CE Origination Agreements
“Platforms”	the platforms operated in the UK, US and CE by Funding Circle, together with any similar or equivalent platform established or operated by Funding Circle in any jurisdiction
“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
“Prospectus”	The prospectus issued on the initial IPO on 30 November 2015 and subsequently revised in February 2017.
“PwC”	PricewaterhouseCoopers CI LLP, PricewaterhouseCoopers Ireland and PricewaterhouseCoopers UK LLP
“PwC CI”	PricewaterhouseCoopers CI LLP
“PwC Ireland”	PricewaterhouseCoopers Ireland
“PwC UK”	PricewaterhouseCoopers UK
“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
"Share Price Total Return”	A measure of performance showing how the share price has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. It assumes that dividends paid to shareholders are reinvested in the shares at the time the shares are quoted ex-dividend.

Funding Circle SME Income Fund Limited

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