

Funding Options Limited - £5M Award

CIF Key Achievements to Date

- Funding Options has used BCR funding in line with its pledges to help facilitate over £215m of new lending (debt) overall to UK SMEs since the commencement of Pool D. In doing so we have exceeded all targets for new alternative lending to date.
- In the process of delivering the above, and in response to the ongoing challenges presented by COVID-19, the Funding Options team has worked tirelessly to ensure it is able to continue to successfully provide appropriate funding options for UK SMEs. We have navigated the HMG schemes diligently, establishing a core set of lenders that are able to both lend at reasonable scale given the conditions and provide SMEs with competitive choice, a factor that was notably absent when such schemes were initially announced. Outside of the HMG schemes, the team's activity in onboarding selected new alternative lenders has seen the panel expand further beyond the pledge target to incorporate more than 120 active lenders.
- Funding Options has raised the full £5m in matched investment for our Pool D grant to enable us to deliver against our strategy.
- As an early adopter of Open Banking technology, Funding Options has championed the benefits of Open Banking infrastructure for both its business customers and lender partners alike. Adoption rates have been strong, and we are confident that Open Banking will prove a key enabler in delivering significantly greater efficiency in SME lending to UK businesses going forward. Further enhancements to our customer journey have been implemented to embed Open Banking seamlessly into the application process.
- Funding Options continues to make great progress in empowering accountancy firms and other professional companies to provide vital support to their local SMEs. To improve our service to this segment specifically, the team has launched "Funding Cloud Connect" - Funding Options' tailored solution for professional firms through its Advisory channel. Onboarding of new relationships through our Commercial and Advisory teams continues at pace, building on the momentum of the new platform, achieving well over 60% of the 2021 target with three quarters of the year to go.
- We have continued to submit applications for new loans without any cost of acquisition to a growing number of lender partners, delivering ahead of target and arranging just under £64M in new lending at nil cost of acquisition cumulatively so far.
- Funding Options has made excellent progress changing SME behaviours for their benefit throughout 2020, more than doubling the number of SME visitors using its website on a quarterly basis this year. The team achieved 190% of the 2020 target for website visitors, a fantastic result that was just a fraction short of the overall goal of attracting 1m visitors to our website per annum by end-2022.

Assessment Period 7 (January 1st, 2021 – March 31st, 2021)**Original Commitment:****COMMITMENT 1: WE WILL POWER THE ALTERNATIVE SME LENDING SEGMENT**

Funding Options will fund an additional 10,000 UK SMEs with almost £0.5 billion in alternative lending by end-2022 and will deliver £100 million in new loan volumes for alternative lenders without them having to pay any cost of acquisition. In addition, Funding Options will grow the number of alternative lenders on its platform from the current 50 to 100, helping more to achieve scale to compete with the major banks. Funding Options will also deploy new free technology enabling at least 10 alternative SME lenders to adopt modern lending capabilities such as live pre-approvals and Open Banking, enabling them to better compete.

Rationale for change:

Covid has severely impacted our ability to meet the original target number of SMEs funded by the end of 2022. There are two specific reasons for this: firstly, the supply side dynamics of the market were fundamentally changed due to the risk of lending in such an unpredictable market; and secondly, the Government schemes steered demand to those schemes and away from market-based lending products that remained accessible. With the sub-£50k loan demand from UK SMEs disappearing almost exclusively to the Government's BBLS, the volume of loans we have been able to channel through both the CBILS and market-based lending products has dropped significantly, while the average value of lending requested has increased sharply. Consequently, the number of SMEs on behalf of which we have been able to secure finance since the start of the pandemic, has dropped markedly and we have instead met their needs through sourcing the volume of lending required. While we believe there is reason to be cautiously optimistic that demand for lower value finance may return, at least in part, over the coming months, as at the time of writing it is impossible to be sure how the market dynamics will play out during the remainder of 2021 and into 2022.

New Commitment:

Funding Options will fund up to 10,000 UK SMEs with almost £0.5 billion in alternative lending by end-2022 and will deliver £100 million in new loan volumes for alternative lenders without them having to pay any cost of acquisition. In addition, Funding Options will grow the number of alternative lenders on its platform from the current 50 to 100, helping more to achieve scale to compete with the major banks. Funding Options will also deploy new free technology enabling at least 10 alternative SME lenders to adopt modern lending capabilities such as live pre-approvals and Open Banking, enabling them to better compete.

We are on track to deliver this commitment.

Notwithstanding the ongoing challenging environment for SME finance and country-wide lockdown restrictions being in force, the team was incredibly proud to see the Funding Options platform facilitate its second successive quarter of record lending volume in Q1 2021, achieving £40M in new lending assisted by BCR grant funding. This is again, a fantastic result for UK businesses and the positive variance to target positions us well to facilitate almost £0.5bn in alternative lending by end-2022, in line with our Public Commitment.

While the Funding Options team achieved record new lending volume during Q1 2021, the number of additional SMEs funded fell significantly short of expectations and the target. Performance in this

area has been hampered by the existence of the Government SME loan schemes which have distorted the SME finance market and, in the case of the BBLs, removed much of the demand for debt finance sub-£50k. Whereas Funding Options' platform would previously facilitate a high volume of lower value loans as a material proportion of overall volume, we have seen far less of that flow since the schemes were launched.

With the schemes ending this quarter, we may see a gradual return to predominantly market-based lending as the year progresses. We believe the demand will return but with the subsequent launch of the Government's new Recovery Loan Scheme, it is still too early to know to what degree.

COMMITMENT 2: WE WILL CHANGE SME BEHAVIOURS, FOR THEIR BENEFIT

Funding Options will double the number of SME visitors using its website to 1,000,000 p.a. by end-2022, in doing so transforming the number of UK SMEs that research and compare financial services providers online. Building on its current focus on alternative SME lending, Funding Options will get 30,000 SMEs to review their business current account (BCA) provider with an innovative new intelligent BCA comparison tool based on Open Banking data. Underpinning these commitments, Funding Options will grow its brand awareness to 10% of SMEs by 2022 (to be validated by a reputable external market research agency) to create a 'go to' online presence where SMEs can confidently access a diverse range of financial services providers. To support this - alongside £5 million of Pool D funding - Funding Options will raise £5 million in matched private sector capital to further stimulate UK based SME financial services competition, a fundraising strategy unanimously agreed by existing investor shareholders.

We are on track to deliver this commitment.

The Funding Options team has continued the excellent progress made in changing SME behaviours for their benefit throughout 2020, carrying the great momentum into this year. Off the back of achieving 190% of the 2020 target for website visitors, the team has already achieved 27% of the increased target for 2021.

Brand awareness amongst UK SMEs has grown significantly during this reporting period. We took the decision to change our third-party supplier to Censuswide this year as we felt they would provide a more representative assessment of our prevailing brand awareness. From Censuswide's independent survey, we achieved a score of 25% for Q1 2021 which is well above the pledged target.

The development and release of our Business Current Account comparison tool based on Open Banking data has been delayed due to a conscious decision to prioritise deliverables pertaining to our Public Commitments 1 and 3 - powering the alternative SME lending segment and filling the gap from closing bank branches respectively.

COMMITMENT 3: WE WILL FILL THE GAP FROM CLOSING BANK BRANCHES

Funding Options will close the gap in local funding advice, by innovative new technology that will empower 1,000 accounting firms - from all corners of the UK - to act like traditional local bank managers in supporting SMEs. Funding Options will also run roadshows across the UK, to drive awareness and understanding of alternative SME finance. In addition, Funding Options will deploy a marketplace technology for banks, enabling them to offer alternative lending products to SME

customers that do not fit their own lending criteria. This solution will be rolled out to banks representing one-quarter of SME banking market share.

We are on track to deliver this commitment.

Last quarter the team released “Project Ballpark” - Funding Options’ solution for Accounting firms through its Advisory channel. Since then, the Commercial and Advisory teams have made excellent progress onboarding new advisory partners and we are on track to achieve the overall target for 2021.

The planned physical regional roadshows are still not feasible given the ongoing coronavirus restrictions. To replace these and continue to drive momentum in the onboarding of new advisory partners, a framework of webinars (virtual roadshows) was established to reach accounting firms across the UK.

Funding Options continues to work closely with its bank partners to support them with our digital “Alternative Yes” solution for their business customers. The impact of coronavirus and the responsibilities incumbent on the banks in relation to the Government loan schemes and other mandated forms of financial assistance, has very much limited their capacity to deliver alternative innovative solutions at this time. Establishing new partnerships remains challenging but dialogue and collaboration is ongoing with a number of targets.

COMMITMENT 4: WE WILL GET OPEN BANKING FOR SMEs ON TRACK

By end-2022, Funding Options will use its presence to ensure that 50,000 SMEs use Open Banking data to achieve better comparison of loans, overdrafts, BCAs and other financial services products, driving crucial early market adoption of Open Banking, and putting more SMEs in control of their data. As part of delivering this commitment, by end-2022 we anticipate that more than a quarter of SMEs making a loan application through Funding Options will be using Open Banking technologies for enhanced ease, speed and personalisation.

We are on track to deliver this commitment.

Momentum in terms of the number of SMEs utilising Open Banking data continues to build. The team is planning a number of enhancements to Funding Options’ dynamic customer journey that it believes will embed Open Banking technology even more at the heart of the application process, increasing adoption further. While the cumulative target of customers using Open Banking technology when applying for finance with Funding Options for 2021 is a stretch, we expect an acceleration in the numbers over the next three quarters to meet the target by year end.