

Funding Circle Holdings plc

2019 Half Year Results

Embargoed until 7.00am, 08 August 2019

Funding Circle Holdings plc (“Funding Circle”, the “Group” or the “Company”), the leading small and medium enterprise (“SME”) loans platform in the UK, US, Germany and the Netherlands, today announces results for the six months to 30 June 2019 (“H1 2019”).

Financial Summary¹:

- Group revenue² of £81.4 million (H1 2018: £63.0 million) up 29%.
- Group segment adjusted EBITDA³ of £1.2 million (H1 2018: £3.3 million) with margin of 1% (H1 2018: 5%).
- UK segment adjusted EBITDA of £13.9 million (H1 2018: £11.2 million) with margin of 26% (H1 2018: 26%).
- Adjusted EBITDA⁴ loss of £19.7 million (H1 2018 loss: £13.9 million); with margin of negative 24% (H1 2018: negative 22%).
- Loss before tax of £30.8 million (H1 2018 loss: £27.1 million).
- Basic loss per share of 8.9 pence (H1 2018 loss: 10.6 pence).
- Free cash outflow⁵ of £28.1 million (H1 2018 outflow: £22.5 million).
- Cash of £270.0 million (31 December 2018: £333.0 million). Of the £63.0 million reduction, £30.0 million relates to short term net investments to fund the launch of new Asset Backed Securities (“ABS”) bond products and a further £5.6 million to fund the launch of new private funds.

Operating and Strategic Summary:

- Leading SME loans platform:
 - Loans under management up 37% to £3.54 billion (H1 2018: £2.58 billion)
 - Originations up 14% to £1.19 billion (H1 2018: £1.04 billion)
 - In the US, Funding Circle passed \$2.0 billion of cumulative loan originations and \$1.0 billion of loans under management in H1 2019, making it one of the 50 largest SME loan portfolios in the country
- Significant economic and social impact generated by lending to SMEs:
 - In April 2019, Funding Circle, in collaboration with Oxford Economics, published its third Economic Impact Report which estimated that in 2018 businesses that borrowed through Funding Circle unlocked 115,000 jobs and contributed £6.5 billion to GDP across the UK, US, Germany and the Netherlands
 - In total, more than 72,000 SMEs have accessed finance through Funding Circle since 2010
- Market-leading satisfaction scores lead to strong repeat behaviour:
 - 46% of Group revenue from existing customers, up from 41% in H1 2018. Net Promoter Scores between 80-90 in UK and US
 - When asked about who they would go to first for a loan in future, 82% of borrowers say they would choose Funding Circle rather than their bank
- Deep and diverse investor base:
 - In H1 2019, approximately £210 million of new lending commitments were secured from pension funds, insurance companies, government entities and banks
 - Additionally, Funding Circle launched four new funding products – UK and US ABS bonds and UK and European private funds
 - In total, more than 92,000 investors lend on the Funding Circle platform, earning projected annual returns of 5.0-8.5% across all geographies in 2019 – c.5,000 new investors started lending in H1 2019 alone

Samir Desai CBE, CEO and co-founder, said:

1 Financial results for 2018 have been restated for the impact of IFRS 16 “Leases”. A reconciliation is provided in note 2.

2 Throughout this report, Net Revenue as presented on the Statement of Comprehensive Income Statement is referred to as “Revenue”.

3 Segment adjusted EBITDA represents adjusted EBITDA before central costs. A reconciliation to operating profit is shown in note 4.

4 Adjusted EBITDA represents operating profit before depreciation and amortisation, share based payments and associated social security costs, foreign exchange gains / (losses) and exceptional items. A reconciliation between adjusted EBITDA and operating profit is shown in note 4.

5 Free cash flow has been redefined and now represents net cash flows from operating and investing activities including the payment of lease liabilities but excluding the purchase of loans through private funds and ABS warehouses which are primarily funded through bank borrowings. A calculation is provided in note 16.

“During the first half of the year, we grew revenue by 29% and we now have £3.54bn of loans under management. As previously announced, we expect to grow revenues by c.20% this year due to the uncertain economic environment and proactive actions we have taken. We continue to benefit from strong repeat dynamics from borrowers, with 46% of Group revenue coming from existing customers, and attracting new investors to the platform.

We remain confident in our aim to become the world's largest small business loans provider, helping millions of businesses to create jobs and support economic growth. Small businesses remain underserved. Our platform allows them to access the finance they need in a fast and affordable way, whilst at the same time, opening up a stable and attractive asset class to a broad range of investors.”

Outlook

Our guidance for 2019 is unchanged from the Q2 Trading Update including revenue growth to be c.20% and adjusted EBITDA loss margin for 2019 to be better than for 2018.

Funding Circle remains confident of delivering its stated strategy and generating long-term value for shareholders.

Analyst presentation

A presentation for analysts and investors will be held today at 9:30am at 71 Queen Victoria Street, London, EC4V 4AY. Please contact fundingcircle@headlandconsultancy.com if you wish to attend or to join the webcast live.

An on-demand replay will also be available on the Funding Circle website following the presentation.

Media and Analyst Enquiries:

Funding Circle

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About Funding Circle:

Funding Circle (LSE: FCH) is a global SME loans platform, connecting SMEs who want to borrow with investors who want to lend in the UK, US, Germany and the Netherlands. Since launching in 2010, investors across Funding Circle's geographies - including more than 92,000 retail investors, banks, asset management companies, insurance companies, government-backed entities and funds - have lent more than £7.5 billion to over 72,000 businesses globally.

Forward looking statements and other important information

This document contains forward looking statements, which are statements that are not historical facts and that reflect Funding Circle's beliefs and expectations with respect to future events and financial and operational performance. These forward looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond the control of Funding Circle and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. Nothing contained within this document is or should be relied upon as a warranty, promise or representation, express or implied, as to the future performance of Funding Circle or its business. Any historical information contained in this statistical information is not indicative of future performance. The information contained in this document is provided as of the dates shown. Nothing in this document should be construed as legal, tax, investment, financial, or accounting advice, or solicitation for or an offer to invest in Funding Circle.

Operating review

Overview

H1 2019 Group revenue growth of 29% to £81.4 million with 46% of revenue coming from existing customers, up from 41% in H1 2018. Loans under management grew 37% to a record £3.54 billion, whilst originations grew 14% to £1.19 billion.

In the UK, our most mature market, the business recorded a segment adjusted EBITDA of £13.9 million in H1 2019, up 24% from H1 2018 (£11.2 million). At a Group level, segment adjusted EBITDA was £1.2 million, down from £3.3 million in H1 2018. After central costs, adjusted EBITDA margin (negative 24%) remained broadly in line with H1 2018 (negative 22%). Loss before tax of £30.8 million was higher than in H1 2018 (£27.1 million).

Operational summary

Economic Impact

In April 2019, Funding Circle, in collaboration with Oxford Economics, published its third Economic Impact Report which estimated that in 2018 businesses that borrowed through Funding Circle unlocked 115,000 jobs and contributed £6.5 billion to GDP across the UK, US, Germany and the Netherlands.

Additionally, the research found that SMEs represent a tiny proportion of banks' overall balance sheets and that there is a pattern of small firms being at a disadvantage in terms of the support they receive from banks, compared to larger businesses across all markets we operate in. As a result, a growing number are moving away from thinking "bank first".

Market Analysis

Current loan performance across the Funding Circle platform remains in line with the projections we outlined in Q1. Across all geographies, investor returns on a net basis are expected to deliver 4.4-8.4% in the 2018 cohort and 5.0-8.5% in the 2019 cohort.

In the UK, 85% of the portfolio (risk bands A+ to C) has remained consistently stable, however in historic cohorts, we have seen some deterioration in higher risk band loans. This has been driven by a deterioration in the consumer credit environment since 2016, which affects smaller and younger companies (typically D&E risk bands) and in response we tightened our risk criteria for higher risk band loans. We continue to monitor the macroeconomic environment, proactively making adjustments where appropriate.

Increasing Funding Diversification

In H1 2019, we launched four new investor products to widen the universe of lenders that can access the platform. This was in line with the strategy set out at IPO, which included '*diversifying funding sources*' as one of the key pillars.

Private Funds

- In February 2019, we launched a European private fund (European SME Direct Lending Fund), which intends to raise more than €200 million from institutional investors over the next few years.
- This was followed by the launch of a UK private fund (UK SME Direct Lending Fund) in June 2019 which intends to raise more than £200 million from UK institutional investors over the next few years.

ABS Bonds

- In February 2019, the Group launched a \$250 million ABS bond programme in the US with a credit facility of \$180 million.
- In June 2019, the Group also launched a £250 million ABS bond programme in the UK, with a credit facility of £220 million.

In April 2019, Pollen Street securitised a portfolio of c.£180 million of Funding Circle loans, demonstrating the resilience of the UK securitisation market and demand for our assets.

In June 2019, the Funding Circle SME Income Fund Limited ("FCIF") confirmed its intention to stop re-investment in loans and return cash to shareholders. This was driven by increased hedging costs to hedge US dollar interest rate risks, elevated cost structures due to the use of three leveraged facilities and the negative impact of the IFRS9 Accountancy Standard on the net asset value ("NAV") to shareholders. Funding Circle supported this decision, FCIF had become a declining part of Funding Circle's overall funding mix and was projected to fund only c.3.5% of Funding Circle's origination volume in 2019. Total FCIF returns since inception were 16.5%.

Geographic highlights

UK

The UK represents Funding Circle's largest and most mature business unit. Loans under management at the end of the period were up 30% to £2.45 billion and originations in the period grew 12% to £798.0 million. Together, this delivered revenue of £53.0 million, an increase of 24% year-on-year. Existing customers, which are significantly more profitable than new customers, as repeat loans have minimal acquisition costs, now account for 53% of UK revenues.

In June 2019, the FCA introduced a package of rules and guidance for the peer-to-peer lending market. We are supportive of these new measures and already adhere to the majority of them. As a business we have consistently campaigned for industry regulation that protects consumers and raises industry standards.

Funding Circle continues to build a deep and diverse range of funding sources. In H1 2019, 36% of funding was from retail investors and on the institutional side of the platform, we were pleased to launch the UK ABS bond programme, and the first UK SME Direct Lending Fund which included a £30 million lending commitment from Merseyside Pension Fund.

In Q3, James Meekings is to transition to a non-executive role on the UK board and step down from his role as UK MD. Lisa Jacobs, currently Chief Strategy Officer, will take over leadership of the UK business.

US

During H1 2019, the US originated £311 million of loans with loans under management ending the period at £848 million. This delivered revenue of £21.9 million, up 46% year-on-year with the growth being led by new borrowers as Funding Circle continues to take market share from traditional providers. Growth was proactively controlled in H1 as we tightened higher risk band lending and increased prices to ensure the successful launch of the new ABS bond product later in 2019. The US has now surpassed \$2.0 billion of cumulative originations and \$1.0 billion of loans under management since launch and is one of the 50 largest SME loan portfolios in the country.

In March 2019 we launched our new ABS bond product in the US. As we continue to diversify funding sources, we recently opened a capital markets office in New York.

In April 2019, the US entered into a partnership with Lending Club whereby Lending Club will refer all borrowers looking for small business loans on its platform to Funding Circle rather than originate the loans themselves.

Developing Markets

Our Developing Markets consist of Germany and the Netherlands, which are entering their fourth year of operation.

Loans under management for the period grew by 59% to £244 million and originations grew by 1% to £83 million. This lower than expected growth was as a result of a number of significant funding commitments not completing until later in H1 2019. The new funding arrangements include the new European SME Direct Lending Fund, plus commitments from Avida and the European Investment Bank.

In total, Developing Markets delivered revenue of £6.5 million for the period, an increase of 25% year-on-year.

Finance review

Segment results and adjusted EBITDA

	6 months to 30 June 2019	6 months to 30 June 2018 (restated)	Change
	£m	£m	
UK	53.0	42.8	24%
US	21.9	15.0	46%
Developing Markets	6.5	5.2	25%
Revenue¹	81.4	63.0	29%
UK	13.9	11.2	24%
US	(6.7)	(4.4)	(52%)
Developing Markets	(6.0)	(3.5)	(71%)
Segment Adjusted EBITDA	1.2	3.3	(64%)
Product development	(14.3)	(12.2)	(17%)
Corporate costs	(6.6)	(5.0)	(32%)
Adjusted EBITDA	(19.7)	(13.9)	(42%)

Adoption of IFRS 16

From 1 January 2019, the Group adopted the new leasing standard (IFRS 16) retrospectively. The adoption resulted in a restatement of H1 2018 through an increase to adjusted EBITDA of £2.4 million, an increase in depreciation of £2.0 million and an increase in net interest expense of £0.5 million. Profit before tax was restated to be £0.1 million lower.

Revenue

In H1 2019, revenue grew 29% to £81.4 million (H1 2018: £63.0 million). Revenue reflects transaction fees earned on originations and servicing income earned from servicing loans under management. Following the launch of the ABS bonds in the UK and US and the private funds in the UK and Europe, revenue also includes investment income earned on SME loans that the Group has invested in, net of the cost of servicing debt incurred to acquire a proportion of the SME loans and fair value gains/losses.

The 29% growth in revenue was faster than the 14% growth in originations due to growing transaction yields (including the impact of a policy change in the US whereby a borrower is no longer required to refinance an existing loan when taking out a new loan), servicing revenue (which broadly tracks growth in the loans under management) plus net investment income from the new investor products.

Adjusted EBITDA

Product development costs which relate to the people and overhead costs of running and developing the Group's technology platforms grew by 17%. This was the result of increased software engineering headcount as the Group invests in its global ledger system and seeks to automate much of its borrower platform. Internal development costs capitalised as intangible fixed assets in H1 2019 were £5.8 million, up from £4.7 million in H1 2018.

Corporate costs in H1 2019 of £6.6 million (H1 2018: £5.0 million) included a full six months of the additional costs of operating as a listed company which were not present in the, pre IPO, first half of 2018.

Profit and loss

	6 months to 30 June 2019	6 months to 30 June 2018 (restated)	Change
	£m	£m	%
Revenue			
Transaction revenue	62.5	50.3	24%
Servicing revenue	15.2	11.3	35%
Net investment income	1.0	-	n/r
Other revenue	2.7	1.4	93%
	81.4	63.0	29%
Operating expenses			
People costs (incl. contractors)	(45.5)	(38.3)	(19%)
Marketing costs	(35.2)	(24.7)	(43%)
Depreciation and amortisation	(7.1)	(6.1)	(16%)
Loan repurchase charge	(4.2)	(1.4)	(200%)
IPO advisor costs (exceptional)	-	(1.9)	100%
Other costs	(20.7)	(17.5)	(18%)
	(112.7)	(89.9)	(25%)
Operating loss	(31.3)	(26.9)	(16%)
Loss per share (pence)	(8.9)	(10.6)	16%

Revenue

Transaction revenue grew 24% to £62.5 million driven by origination increases of 14% and an 8% increase in transaction yields to 5.2% (H1 2018: 4.8%) following price rises and the policy change in the US. This level of increase in transaction yield growth is not expected to continue through the rest of 2019.

Servicing revenue grew 35% to £15.2 million. Loans under management increased by 37% to £3.54 billion with servicing yield reducing to 0.9% (H1 2018: 1.0%) following some discounting in the US.

Net investment income represents the income on loans invested within the ABS warehouse and private funds, together with fair value gains or losses on those loans and servicing of associated bank borrowings.

Other revenue principally includes fee premiums for providing financial guarantees to certain institutional investors during the period.

Operating expenses

Total operating costs increased during the period by 25% to £112.7 million (H1 2018: £89.9 million) compared with growth in revenues of 29%.

People cost increases during the period of 19% (£7.2 million) were principally driven by the 20% growth in average headcount from 949 to 1,140 as the Group continues to scale.

Marketing is primarily directed at new customers rather than existing customers. As each segment grows its existing customer base, there will be greater operational leverage due to the cost of acquisition for repeat loans being significantly lower than that for new loans.

Marketing costs increased in the period from £24.7 million in H1 2018 to £35.2 million in H1 2019. As well as marketing to attract new borrowers, the Group spent £8.8 million on "above the line" channels, including TV and radio, to help grow brand awareness and consideration.

Marketing spend overall was 43% of revenue in the six month period (H1 2018: 39%). Spend in the second half of 2019 is likely to be less as a percentage of revenue such that the expectation for the full year is marketing spend below 40% of revenue.

Loan repurchase charge relates to the buy back of defaulted loans from certain financial institutions where the Group has committed to buy back defaulted loans in return for a fee premium. Under IFRS9 this commitment is accounted for under the expected credit loss model. The increase on H1 2018 was due to this commitment being extended to an additional financial institution covering the first few months of a loans life. The level of charge in the second half of the year is expected to fall back towards 2018 levels.

Other costs including cost of sales, data and technology costs and property costs, grew by £3.2 million to £20.7 million, driven primarily by growth in the business and greater data consumption.

Operating loss grew to £31.3 million (H1 2018: loss £26.9 million) with an operating loss margin of 38% compared with 43% in 2018.

The Group remains largely non-corporate tax paying given its losses to date.

The **loss per share** was 8.9 pence (H1 2018: loss per share 10.6 pence) based on a weighted average number of ordinary shares in issue of 346.7 million (H1 2018: 255.6 million).

Funding, liquidity and debt

At 30 June 2019, the Group held cash of £270.0 million, significantly increased from 2018 following the net £285.0 million funds raised through the IPO in October 2018.

During 2019, the Group has launched four new products to access new funding sources for lending to SMEs.

- i) ABS bonds in the US and UK – during the warehouse phase, each programme is funded through a combination of the Group’s own capital and third party credit facilities. By 30 June 2019 the Group had drawn £145.5 million on these facilities and invested £30.0 million of its own cash.
- ii) Private fund in the Developing Markets – at 30 June 2019, the Group had committed €10 million of seed capital into this fund and raised a further €31 million from institutional investors with €6.0 million (£5.6 million) of the Group’s cash drawn down.

The Group continues to maintain the majority of its available cash in the UK with 87% of the Group’s cash denominated in GBP.

	6 months to 30 June 2019	6 months to 30 June 2018 (restated)
	£m	£m
Net cash outflow from operating activities	(18.1)	(15.4)
Net cash outflow from investing activities (incl leases but excl. investments)	(10.0)	(7.1)
<i>Free cash flow</i>	(28.1)	(22.5)
Net cash outflow from financing activities (incl. investments but excl. leases)	(35.1)	(1.5)
Effect of foreign exchange	0.2	0.3
Movement in the period	(63.0)	(23.7)
Cash and cash equivalents at the beginning of the period	333.0	88.9
Cash and cash equivalents at the end of the period	270.0	65.2

The net cash outflow from operations was £18.1 million reflecting the adjusted EBITDA loss of £19.7 million and net working capital inflows.

Following the introduction of the ABS bond programmes and private funds, the Group has redefined “free cash flow” as net cash flows from operating and investing activities including the payment of lease liabilities but excluding the purchase of loans through private funds and ABS warehouses which are primarily funded through bank borrowings. These are excluded as they are largely financed through the drawing of bank debt which is shown in financing activities.

Free cash outflow was £28.1 million. This is a key liquidity measure and is the amount of cash required to operate and develop the Group’s platform in the period.

Net cash outflows from financing activities was £35.1 million and included ABS programme investment of £175.5 million, financed by £145.5 million of bank debt as well as a £5.6 million investment in private funds.

Going concern

On the basis of the Group’s current financial projections and available facilities, the Directors are satisfied that it is appropriate to prepare the interim financial statements on a going concern basis.

Statement of Directors’ Responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 (“Interim Financial Reporting”) as adopted by the European Union and gives a true

and fair view of the assets, liabilities, financial position and loss as required by DTR 4.2.4 and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial information and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors of Funding Circle Holdings plc are listed in the Company's Report and Accounts for the year to 31 December 2018. A list of current Directors is maintained on the Funding Circle Holdings plc website: www.corporate.fundingcircle.com.

By order of the Board

Samir Desai, Chief Executive Officer

Sean Glithero, Chief Financial Officer

8 August 2019

Condensed consolidated statement of comprehensive income

For the six months to 30 June 2019 (unaudited)

	Note	Unaudited 6 months to 30 June 2019 £m	Unaudited 6 months to 30 June 2018 (restated) £m	Year to 31 December 2018 (restated) £m
Transaction revenue	4	62.5	50.3	112.9
Servicing revenue		15.2	11.3	24.9
Net investment income		1.0	-	-
Other revenue		2.7	1.4	4.1
Net revenue		81.4	63.0	141.9
People costs		(45.5)	(38.3)	(79.2)
Marketing costs		(35.2)	(24.7)	(57.8)
Depreciation and amortisation		(7.1)	(6.1)	(12.5)
Loan repurchase charge		(4.2)	(1.4)	(2.6)
IPO advisor costs (exceptional)		-	(1.9)	(5.9)
Other costs		(20.7)	(17.5)	(34.7)
Operating expenses	5	(112.7)	(89.9)	(192.7)
Operating loss		(31.3)	(26.9)	(50.8)
Finance income		1.0	0.3	0.9
Finance costs	6	(0.5)	(0.5)	(1.0)
Loss before taxation		(30.8)	(27.1)	(50.9)
Income tax	7	(0.2)	-	1.4
Loss for the period		(31.0)	(27.1)	(49.5)
Other comprehensive income				
Items that may be reclassified subsequently to profit and loss:				
Exchange differences on translation of foreign operations		1.0	0.8	2.4
Total comprehensive loss for the period		(30.0)	(26.3)	(47.1)
Total comprehensive loss attributable to:				
Owners of the parent		(30.0)	(26.3)	(47.1)
Loss per share				
Basic and diluted loss per share	8	(8.9p)	(10.6p)	(18.2p)

The six months to June 2018 and the year to December 2018 have been restated for the impact of IFRS 16 "Leases" – refer to note 2.

Condensed consolidated balance sheet

As at 30 June 2019 (unaudited)

		Unaudited 30 June 2019	Unaudited 30 June 2018 (restated)	31 December 2018 (restated)
	Note	£m	£m	£m
Non-current assets				
Goodwill	9	42.3	41.5	42.3
Intangible assets	10	23.7	17.9	21.5
Property, plant and equipment	11	25.3	26.9	25.2
Investments in associates	12	5.6	-	-
Investment in loans (other)	13	2.0	0.2	0.3
		<u>98.9</u>	<u>86.5</u>	<u>89.3</u>
Current assets				
Investment in loans (curing)	13	2.6	5.1	4.7
Investment in loans (bond products)	13	177.3	-	-
Trade and other receivables		27.8	19.5	23.0
Cash and cash equivalents		270.0	65.2	333.0
		<u>477.7</u>	<u>89.8</u>	<u>360.7</u>
Total assets		<u>576.6</u>	<u>176.3</u>	<u>450.0</u>
Current liabilities				
Trade and other payables		24.3	17.9	19.3
Borrowings	14	146.8	-	-
Lease liabilities	11	5.6	3.9	5.0
Short-term provisions	15	3.5	4.1	3.8
		<u>180.2</u>	<u>25.9</u>	<u>28.1</u>
Non-current liabilities				
Long-term provisions	15	0.9	0.7	0.8
Lease liabilities	11	18.4	22.8	20.1
Total liabilities		<u>199.5</u>	<u>49.4</u>	<u>49.0</u>
Equity				
Share capital		0.4	0.2	0.3
Share premium account		292.2	278.2	291.8
Foreign exchange reserve		16.7	14.1	15.7
Share options reserve		10.1	15.8	6.0
Retained earnings		57.7	(181.4)	87.2
Total equity		<u>377.1</u>	<u>126.9</u>	<u>401.0</u>
Total equity and liabilities		<u>576.6</u>	<u>176.3</u>	<u>450.0</u>

The six months to June 2018 and the year to December 2018 have been restated for the impact of IFRS 16 "Leases" – refer to note 2.

These condensed interim financial statements were approved by the Board on 8 August 2019. They were signed on behalf of the Board by:

S Glithero
Director

Condensed consolidated statement of changes in equity

For the six months to 30 June 2019 (unaudited)

Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Retained earnings / (accumulated losses) £m	Total equity £m
Balance at 1 January 2018 as previously reported	0.2	278.0	13.3	13.9	(153.2)	152.2
Impact of change in accounting policy	-	-	-	-	(1.1)	(1.1)
Restated balance as at 1 January 2018	0.2	278.0	13.3	13.9	(154.3)	151.1
Loss for the period (restated)	-	-	-	-	(27.1)	(27.1)
Other comprehensive income: (restated)						
Exchange differences on translation of foreign operations	-	-	0.8	-	-	0.8
Transactions with owners						
Issue of share capital	-	0.2	-	-	-	0.2
Employee share schemes – value of employee services	-	-	-	1.9	-	1.9
Unaudited balance at 30 June 2018 (restated)	0.2	278.2	14.1	15.8	(181.4)	126.9
Balance at 31 December 2018 as previously reported	0.3	291.8	15.7	6.0	88.6	402.4
Impact of change in accounting policy	-	-	-	-	(1.4)	(1.4)
Restated balance as at 1 January 2019	0.3	291.8	15.7	6.0	87.2	401.0
Loss for the period	-	-	-	-	(31.0)	(31.0)
Other comprehensive income:						
Exchange differences on translation of foreign operations	-	-	1.0	-	-	1.0
Transactions with owners						
Issue of share capital	0.1	0.4	-	-	-	0.5
Transfer of share option costs	-	-	-	(1.5)	1.5	-
Employee share schemes – value of employee services	-	-	-	5.6	-	5.6
Unaudited balance at 30 June 2019	0.4	292.2	16.7	10.1	57.7	377.1

The six months to June 2018 and the year to December 2018 have been restated for the impact of IFRS 16 "Leases" – refer to note 2.

Condensed consolidated statement of cash flows

For the six months to 30 June 2019 (unaudited)

	Note	Unaudited 6 months to 30 June 2019 £m	Unaudited 6 months to 30 June 2018 (restated) £m	Year to 31 December 2018 (restated) £m
Net cash outflow from operating activities	16	(18.1)	(15.4)	(24.7)
Investing activities				
Purchase of intangible assets		(5.9)	(4.7)	(11.0)
Purchase of property, plant and equipment		(2.2)	(1.3)	(2.3)
Investment in loans		(175.5)	(1.7)	(1.1)
Investment in associate		(5.6)	-	-
Interest received		0.9	0.3	0.9
Net cash outflow from investing activities		(188.3)	(7.4)	(13.5)
Financing activities				
Bank borrowings		145.5	-	-
Preferred dividend payment		-	-	(0.5)
Proceeds on the issue of Ordinary shares on IPO		-	-	300.0
Payment of IPO advisor costs		-	-	(15.0)
Proceeds from the exercise of share options		0.5	0.2	1.1
Payment of lease liabilities		(2.8)	(1.4)	(3.8)
Net cash inflow / (outflow) from financing activities		143.2	(1.2)	281.8
Net (decrease)/increase in cash and cash equivalents		(63.2)	(24.0)	243.6
Cash and cash equivalents at the beginning of the period		333.0	88.9	88.9
Effect of foreign exchange rate changes		0.2	0.3	0.5
Cash and cash equivalents at the end of the period		270.0	65.2	333.0

The six months to June 2018 and the year to December 2018 have been restated for the impact of IFRS 16 "Leases" – refer to note 2.

Notes to the interim financial statements

For the six months to 30 June 2019 (unaudited)

1. Basis of preparation

General information

Funding Circle Holdings plc ('the Company') is a public limited company which is listed on the London Stock Exchange and is domiciled and incorporated in the United Kingdom under the Companies Act 2006. The Company's registered office is 71 Queen Victoria Street, London, EC4V 4AY.

These interim financial statements have been prepared as at, and for the six months to 30 June 2019. The comparative financial information presented has been prepared as at, and for the six months to 30 June 2018 and year to 31 December 2018.

The interim financial information presented as at, and for the six months to, 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements of the Group as at, and for the year to, 31 December 2018 are available on request from the Company's registered office and via the Company's website.

Going concern

The Group made a total comprehensive loss of £30.0 million during the six months to 30 June 2019 (30 June 2018: loss of £26.3 million). The cash and cash equivalent balance of the Group as at 30 June 2019 was £270.0 million (31 December 2018: £333.0 million).

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

The Group has prepared detailed cash flow forecasts for the next 12 months. The Directors have made inquiries of management and considered budgets and cash flow forecasts for the Group and have, at the time of approving these interim financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Basis of preparation

These interim financial statements, which have been reviewed and not audited, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year to 31 December 2018 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the EU, including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Standard Interpretations Committee (IFRS-IC).

The financial information included in these interim financial statements does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the 'Act'). The statutory accounts for the year to 31 December 2018 have been reported on by the Company's auditors and were delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Act.

Significant changes in the current reporting period

The financial position and performance of the Group was affected by the following events and transactions during the six months to 30 June 2019:

i) Asset backed securities (“ABS”) bonds

During the period, the Group has commenced bond programmes. In the initial “warehousing phase” of the programmes the Group has invested in SME loans using both its cash and amounts borrowed under a credit facility with lending institutions. The loans are held within a special purpose warehouse vehicle which is consolidated in the Group’s balance sheet. Once the warehouse vehicle reaches sufficient scale, the SME loans will be sold into a special purpose vehicle (“SPV”) financed through the issuance of loan notes to third party investors. As at 30 June 2019, no SME loans have been sold to the SPV.

During the warehousing phase the Group earns interest income and assumes credit and interest rate risk on loans held by the Group. The Group also incurs interest expense on the drawn credit facility as well as gains/losses from changes in the fair value of the SME loans retained on its balance sheet. These items are shown within revenue with further details outlined in note 4.

ii) Private Funds

During the period, the Group has established a European private fund for its Developing Markets which is used to acquire loans originated on the Funding Circle platform. In order to establish the fund the Group provided seed capital. Further institutional investors have subsequently invested in this vehicle. As at 30 June 2019, the Group’s interest in the fund was 24% and its investment has been accounted for as an associate. The Group’s interest is expected to decline over time.

2. Changes in significant accounting policies

The accounting policies, methods of computation and presentation adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year to 31 December 2018, except for the adoption of new standards effective as of 1 January 2019 as disclosed on page 20. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New accounting standards and interpretations (adopted full retrospectively)

The Group has adopted the following new and amended IFRSs from 1 January 2019 on a full retrospective basis.

STANDARD / INTERPRETATION	CONTENT	APPLICABLE FOR FINANCIAL YEARS BEGINNING ON/AFTER
IFRS 16	Leases	1 January 2019

IFRS 16 Leases was issued in January 2016 and was endorsed by the EU in 2017. The standard is effective for annual periods beginning on or after 1 January 2019 and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The impact of IFRS 16 – Leases has resulted in the Group recording its current property leases on the balance sheet as a right-of-use asset and a corresponding lease obligation. The leases impacted were previously treated as operating expenses. The change in recognition has resulted in increased depreciation charges, a reduction in lease costs in the income statement and an increase in finance costs.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Upon recognition, the Company's weighted average incremental borrowing rate used in measuring lease liabilities across the Group was 4%.

The following tables summarise the impact of adopting IFRS 16 on the Group's condensed consolidated statement of comprehensive income and condensed consolidated statement of cash flows for the six-month period to 30 June 2019 and the condensed consolidated balance sheet as at 30 June 2019.

Impact of the change in accounting policies on the Condensed Consolidated interim statement of comprehensive income (unaudited)

	Six months to 30 June 2019			Six months to 30 June 2018			Year to 31 December 2018		
	Amounts without adoption of IFRS16	IFRS 16	As reported	As originally presented	IFRS 16	Restated	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Transaction revenue	62.5	-	62.5	50.3	-	50.3	112.9	-	112.9
Servicing revenue	15.2	-	15.2	11.3	-	11.3	24.9	-	24.9
Net investment income	1.0	-	1.0	-	-	0.0	-	-	0.0
Other revenue	2.7	-	2.7	1.4	-	1.4	4.1	-	4.1
Net revenue	81.4	-	81.4	63.0	-	63.0	141.9	-	141.9
People costs	(45.5)	-	(45.5)	(38.3)	-	(38.3)	(79.2)	-	(79.2)
Marketing costs	(35.2)	-	(35.2)	(24.7)	-	(24.7)	(57.8)	-	(57.8)
Depreciation and amortisation	(4.7)	(2.4)	(7.1)	(4.1)	(2.0)	(6.1)	(8.2)	(4.3)	(12.5)
Loan repurchase charge	(4.2)	-	(4.2)	(1.4)	-	(1.4)	(2.6)	-	(2.6)
IPO advisor costs (exceptional)	-	-	-	(1.9)	-	(1.9)	(5.9)	-	(5.9)
Other costs	(23.5)	2.8	(20.7)	(19.9)	2.4	(17.5)	(39.8)	5.1	(34.7)
Operating expenses	(113.1)	0.4	(112.7)	(90.3)	0.4	(89.9)	(193.5)	0.8	(192.7)
Operating loss	(31.7)	0.4	(31.3)	(27.3)	0.4	(26.9)	(51.6)	0.8	(50.8)
Finance income	1.0	-	1.0	0.3	-	0.3	0.9	-	0.9
Finance costs	-	(0.5)	(0.5)	-	(0.5)	(0.5)	-	(1.0)	(1.0)
Loss before taxation	(30.7)	(0.1)	(30.8)	(27.0)	(0.1)	(27.1)	(50.7)	(0.2)	(50.9)
Income tax	(0.2)	-	(0.2)	-	-	-	1.4	-	1.4
Loss for the period	(30.9)	(0.1)	(31.0)	(27.0)	(0.1)	(27.1)	(49.3)	(0.2)	(49.5)
Other comprehensive income:									
Items that may be reclassified subsequently to profit and loss:									
Exchange differences on translation of foreign operations	1.0	-	1.0	0.8	-	0.8	2.4	-	2.4
Total comprehensive loss for the period	(29.9)	(0.1)	(30.0)	(26.2)	(0.1)	(26.3)	(46.9)	(0.2)	(47.1)
Total comprehensive loss attributable to:									
Owners of the parent	(29.9)	(0.1)	(30.0)	(26.2)	(0.1)	(26.3)	(46.9)	(0.2)	(47.1)
Loss per share									
Basic and diluted loss per share	(8.9p)	-	(8.9p)	(10.6p)	-	(10.6p)	(18.2p)	-	(18.2p)

Impact of the change in accounting policies on the Condensed Consolidated interim balance sheet (unaudited)

	As at 30 June 2019			As at 30 June 2018			As at 31 December 2018		
	Amounts without adoption of IFRS16	IFRS 16	As reported	As originally presented	IFRS 16	Restated	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-current assets									
Goodwill	42.3	-	42.3	41.5	-	41.5	42.3	-	42.3
Intangible assets	23.7	-	23.7	17.9	-	17.9	21.5	-	21.5
Property, plant and equipment	6.5	18.8	25.3	5.0	21.9	26.9	5.3	19.9	25.2
Investment in associate	5.6	-	5.6	-	-	-	-	-	-
Investment in loans (others)	2.0	-	2.0	0.2	-	0.2	0.3	-	0.3
	80.1	18.8	98.9	64.6	21.9	86.5	69.4	19.9	89.3
Current assets									
Investments in loans (curing)	2.6	-	2.6	5.1	-	5.1	4.7	-	4.7
Investments in loans (bond products)	177.3	-	177.3	-	-	-	-	-	-
Trade and other receivables	27.8	-	27.8	19.5	-	19.5	23.0	-	23.0
Cash and cash equivalents	270.0	-	270.0	65.2	-	65.2	333.0	-	333.0
	477.7	-	477.7	89.8	-	89.8	360.7	-	360.7
Total assets	557.8	18.8	576.6	154.4	21.9	176.3	430.1	19.9	450.0
Current liabilities									
Trade and other payables	28.1	(3.8)	24.3	21.5	(3.6)	17.9	23.1	(3.8)	19.3
Borrowings	146.8	-	146.8	-	-	-	-	-	-
Lease liabilities	-	5.6	5.6	-	3.9	3.9	-	5.0	5.0
Short-term provisions	3.5	-	3.5	4.1	-	4.1	3.8	-	3.8
	178.4	1.8	180.2	25.6	0.3	25.9	26.9	1.2	28.1
Non-current liabilities									
Long-term provisions	0.9	-	0.9	0.7	-	0.7	0.8	-	0.8
Lease liabilities	-	18.4	18.4	-	22.8	22.8	-	20.1	20.1
Total liabilities	179.3	20.2	199.5	26.3	23.1	49.4	27.7	21.3	49.0
Equity									
Share capital	0.4	-	0.4	0.2	-	0.2	0.3	-	0.3
Share premium account	292.2	-	292.2	278.2	-	278.2	291.8	-	291.8
Foreign exchange reserve	16.7	-	16.7	14.1	-	14.1	15.7	-	15.7
Share options reserve	10.1	-	10.1	15.8	-	15.8	6.0	-	6.0
Retained earnings	59.1	(1.4)	57.7	(180.2)	(1.2)	(181.4)	88.6	(1.4)	87.2
Total equity	378.5	(1.4)	377.1	128.1	(1.2)	126.9	402.4	(1.4)	401.0
Total equity and liabilities	557.8	18.8	576.6	154.4	21.9	176.3	430.1	19.9	450.0

Impact of the change in accounting policies on the Condensed Consolidated statement of cash flows (unaudited)

	Six months to 30 June 2019			Six months to 30 June 2018			Year to 31 December 2018		
	Amounts without adoption of IFRS16	IFRS 16	As reported	As originally presented	IFRS 16	Restated	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net cash outflow from operating activities	(20.9)	2.8	(18.1)	(16.8)	1.4	(15.4)	(28.5)	3.8	(24.7)
Investing activities									
Purchase of intangible assets	(5.9)	-	(5.9)	(4.7)	-	(4.7)	(11.0)	-	(11.0)
Purchase of property, plant and equipment	(2.2)	-	(2.2)	(1.3)	-	(1.3)	(2.3)	-	(2.3)
Investment in associate	(5.6)	-	(5.6)	-	-	-	-	-	-
Investment in loans	(175.5)	-	(175.5)	(1.7)	-	(1.7)	(1.1)	-	(1.1)
Interest received	0.9	-	0.9	0.3	-	0.3	0.9	-	0.9
Net cash outflow from investing activities	(188.3)	-	(188.3)	(7.4)	-	(7.4)	(13.5)	-	(13.5)
Financing activities									
Bank borrowings	145.5	-	145.5	-	-	-	-	-	-
Preferred dividend payment	-	-	-	-	-	-	(0.5)	-	(0.5)
Proceeds on the issue of Ordinary shares on IPO	-	-	-	-	-	-	300.0	-	300.0
Payment of IPO costs	-	-	-	-	-	-	(15.0)	-	(15.0)
Proceeds from the exercise of share options	0.5	-	0.5	0.2	-	0.2	1.1	-	1.1
Payment of lease liabilities	-	(2.8)	(2.8)	-	(1.4)	(1.4)	-	(3.8)	(3.8)
Net cash inflow from financing activities	146.0	(2.8)	143.2	0.2	(1.4)	(1.2)	285.6	(3.8)	281.8
Net increase in cash and cash equivalents	(63.2)	-	(63.2)	(24.0)	-	(24.0)	243.6	-	243.6
Cash and cash equivalents at the beginning of the period	333.0	-	333.0	88.9	-	88.9	88.9	-	88.9
Effect of foreign exchange rate changes	0.2	-	0.2	0.3	-	0.3	0.5	-	0.5
Cash and cash equivalents at the end of the period	270.0	-	270.0	65.2	-	65.2	333.0	-	333.0

Impact of the change in accounting policies on Segmental Information (unaudited)

	Six months to 30 June 2018			Year to 31 December 2018		
	As originally presented	IFRS 16	Restated	As originally presented	IFRS 16	Restated
	£m	£m	£m	£m	£m	£m
United Kingdom	9.8	1.4	11.2	21.8	2.8	24.6
United States	(5.1)	0.7	(4.4)	(7.4)	1.7	(5.7)
Developing Markets	(3.8)	0.3	(3.5)	(7.4)	0.6	(6.8)
Segment Adjusted EBITDA	0.9	2.4	3.3	7.0	5.1	12.1
Product development	(12.2)	-	(12.2)	(24.5)	-	(24.5)
Corporate costs	(5.0)	-	(5.0)	(11.0)	-	(11.0)
Adjusted EBITDA	(16.3)	2.4	(13.9)	(28.5)	5.1	(23.4)
Depreciation and amortisation	(4.1)	(2.0)	(6.1)	(8.2)	(4.3)	(12.5)
Share-based payments and social security costs	(4.7)	-	(4.7)	(8.6)	-	(8.6)
Foreign exchange loss	(0.3)	-	(0.3)	(0.4)	-	(0.4)
Exceptional items	(1.9)	-	(1.9)	(5.9)	-	(5.9)
Operating Loss	(27.3)	0.4	(26.9)	(51.6)	0.8	(50.8)

Summary of new accounting policies

Consolidation of special purpose entities (“SPEs”)

Subsidiaries are those entities, including structured entities, over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the investee. The Group has power over an entity when it has existing rights that give it the current ability to direct the activities that most significantly affect the entity’s returns. Power may be determined on the basis of voting rights or, in the case of structured entities, other contractual arrangements.

The Group assesses whether it controls special purpose entities (‘SPE’) and the requirement to consolidate them under the criteria of IFRS 10. Control is determined to exist if the Group has the power to direct the activities of each entity (for example, managing the performance of the underlying assets and raising debt on those assets which is used to fund the Group) and uses this control to obtain a variable return (for example, retaining the residual risk on the assets). Structures that do not meet these criteria are not treated as subsidiaries and the assets are derecognised when they are sold.

Where the Group manages the administration of its securitised assets and is exposed to the risks and rewards of the underlying assets through its continued investment or where the Group does not retain a direct ownership interest in an SPE, but the Directors have determined that the Group controls those entities, they are treated as subsidiaries and are consolidated.

Net investment income

Net investment income from financial instruments measured at fair value through profit or loss includes:

- Interest income from SME loans that the Group holds on balance sheet (“Investment income”);
- Interest payable on funds borrowed to finance the acquisition of underlying loan investments (“Investment expense”);
- Gains/losses from changes in the fair value of financial assets held on balance sheet; and
- Gains/losses from changes in fair value of interest rate hedging instruments.

Borrowings

Borrowings (draw downs under the credit facility) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest rate method.

Investment in loans (bond products)

Investment in loans (bond products) have been classified as financial assets at fair value through profit or losses. The above classification is because all such loans are acquired principally for selling in the short term. They are initially measured at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in profit or loss.

Leases

At inception of a contract, the Group assesses whether or not a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When a lease is recognised in a contract the Group recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use assets are initially measured at cost, comprising the initial measurement of the lease liability, less any lease incentives. Subsequently, right-of-use assets are measured at cost, less any accumulated depreciation and any accumulated impairment losses, and are adjusted for certain re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the length of the lease.

The lease liability is initially measured at the present value of lease payments, discounted using the Group's incremental borrowing rate. Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and reducing it by the lease payments made. The lease liability is re-measured when there is a change in scope.

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate is accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost. This is adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the profit or loss. It is presented within operating expenses on the grounds of materiality. The Group's share of movements in other comprehensive income of the investee are recognised in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss within the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The significant judgments and estimates applied by the Group in the interim financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2018.

The following are the critical estimates that the Directors have made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the interim financial statements.

a) Estimated impairment of assets (note 9)

The Group tests annually whether goodwill has suffered any impairment. All other assets are tested for impairment where there are indicators of impairment.

The recoverable amount of cash generating units have been determined based on value in use calculations. The use of this method requires the estimate of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates. Following the announcement on 2 July 2019 that revenue projections had reduced, the Group has undertaken an impairment assessment as at 30 June 2019. This exercise did not identify any impairments.

b) Loan repurchase provision (note 15)

In certain circumstances, in the less mature markets, Funding Circle has entered into arrangements with institutional investors to assume the credit risk on the loan investments made by the institutional investors. The Group must make its best estimate for the expected credit loss ("ECL") for these commitments at each reporting date.

Significant estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information. The most significant estimation is with delinquencies and default rates on performing loans. If the annual rates were to change by 0.5%, the provision would change by £0.3 million.

c) Fair value of financial instruments (note 22)

At 30 June 2019, the carrying value of the Group's financial instrument assets held at fair value was £287.9 million (31 December 2018: £154.7 million).

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

4. Segmental information

IFRS 8 Operating segments requires the Group to determine its operating segments based on information which is provided internally. Based on the internal reporting information and management structures within the Group, it has been determined that there are three geographic operating segments supported by two centralised cost segments. Reporting on this basis is reviewed by the Global Leadership Team ('GLT') which is the chief operating decision-maker ('CODM'). The GLT is made up of the Executive Directors and Key Management and is responsible for the strategic decision-making of the Group.

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

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

Capital expenditure is predominantly managed centrally and depreciation and amortisation are not allocated to individual segments for decision making and accordingly have not been allocated to segments.

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Revenue from continuing operations			
United Kingdom	53.0	42.8	93.6
United States of America	21.9	15.0	37.1
Developing Markets	6.5	5.2	11.2
Total revenue	81.4	63.0	141.9

During 2017 management took the decision to cease originating loans to property developers. This activity only took place in the United Kingdom and to aid interpretation of revenue trends the following analysis is provided:

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Supplementary analysis:			
Other business loans	53.0	42.5	93.2
Property loans	-	0.3	0.4
United Kingdom revenue	53.0	42.8	93.6

Adjusted EBITDA and Operating loss	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
United Kingdom	13.9	11.2	24.6
United States	(6.7)	(4.4)	(5.7)
Developing Markets	(6.0)	(3.5)	(6.8)
Segment Adjusted EBITDA	1.2	3.3	12.1
Product development	(14.3)	(12.2)	(24.5)
Corporate costs	(6.6)	(5.0)	(11.0)
Adjusted EBITDA	(19.7)	(13.9)	(23.4)
Depreciation and amortisation	(7.1)	(6.1)	(12.5)
Share-based payments and social security costs	(4.5)	(4.7)	(8.6)
Foreign exchange loss	-	(0.3)	(0.4)
IPO advisor costs (exceptional)	-	(1.9)	(5.9)
Operating loss	(31.3)	(26.9)	(50.8)

Revenue by type

In addition to the segmental reporting of revenue, the table below sets out revenue by its type:

	30 June 2019	30 June 2018	31 December 2018
	£m	£m	£m
Transaction revenue	62.5	50.3	112.9
Servicing revenue	15.2	11.3	24.9
Net investment income			
Investment income	2.2	-	-
Investment expense	(0.9)	-	-
Fair value gains/(losses)	(0.3)	-	-
Other revenue	2.7	1.4	4.1
Net revenue	81.4	63.0	141.9

5. Operating expenses

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
Depreciation	3.5	3.1	6.4
Amortisation	3.6	3.0	6.1
Rental income and other recharges	(0.1)	(0.4)	(0.8)
Operating lease rentals			
- Other assets	-	-	0.1
- Land and buildings	-	-	0.1
People costs (including contractors)	45.5	38.3	79.2
Marketing costs (excluding employee costs)	35.2	24.7	57.8
Data and technology costs	4.9	4.4	9.2
Loan repurchase charge	4.2	1.4	2.6
Foreign exchange loss	-	0.3	0.4
IPO advisor costs (exceptional)	-	1.9	5.9
Other expenses	15.9	13.2	25.7
Total operating expenses	112.7	89.9	192.7

Exceptional items in 2018 related to advisor costs associated with the IPO related costs. The 2018 IPO costs of £5.9 million allocated to profit and loss represented the portion of directly attributable costs relating to the secondary shares traded on Admission and other costs attributable to the Listing. In addition, further IPO costs of £9.1 million were deducted from share premium.

6. Finance costs

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
Interest on lease liabilities	0.5	0.5	1.0
Total finance costs	0.5	0.5	1.0

7. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The estimated average annual tax rate used for the six months to 30 June 2019 (excluding the tax charge on RDEC) is nil%, compared to nil% for the six months to 30 June 2018. The major components of income tax expense in the condensed consolidated statement of comprehensive income are:

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Current tax			
Tax charge on RDEC	0.2	-	-
Research and development tax credit	-	-	(1.4)
Total current tax	0.2	-	(1.4)
Total tax charge/(credit)	0.2	-	(1.4)

The Group continues to be in a loss making position, however, credits receivable in respect of Research and Development Expenditure Credits (RDEC) are received net of corporation tax. The above tax charge represents the amount of tax deducted from the gross RDEC credit receivable. In the previous year, the Research and Development tax credit of £1.4 million was under the small companies regime and was not subject to tax.

The Group has unrelieved tax losses that are available for offset against future taxable profits. The Group has not recognised a deferred tax asset in respect of these losses as there is not sufficient visibility of suitable profits being generated to utilise these losses.

8. Losses per share

	30 June 2019 £m	30 June 2018 (restated) £m	31 December 2018 (restated) £m
Loss attributable to owners of the parent	(31.0)	(27.1)	(49.5)
Weighted average number of ordinary shares in issue (million)	346.7	255.6	271.3
Basic and dilutive loss per share	(8.9p)	(10.6p)	(18.2p)

9. Goodwill

	£m
Cost and carrying amount	
At 1 January 2018	41.3
Exchange differences	0.2
At 30 June 2018	41.5
Exchange differences	0.8
At 31 December 2018	42.3
Exchange differences	-
At 30 June 2019	42.3

The annual goodwill impairment assessment was performed at 31 December 2018. Following a change in the Group's revenue forecasts, the Group has undertaken an interim goodwill impairment review.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units ("CGUs") that are expected to benefit from that business combination. At the balance sheet date, the Group had two CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries and Funding Circle Continental Europe ("FCCE") and its subsidiaries to which goodwill is attached.

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
FCUSA	11.7	11.3	11.7
FCCE	30.6	30.2	30.6
Total	42.3	41.5	42.3

The impairment test involved comparing the carrying value of the net assets held for use to their recoverable amount. The recoverable amount represents the higher of the entity's fair value net of selling costs and its value in use. The impairment was assessed using value in use calculations.

The Group prepared a five-year management plan for its operations with the cashflows based on the following assumptions:

- revenue growth at a compound growth rate of 42% and 35% for FCUSA and FCCE respectively;
- pre-tax discount rates of 11.8% and 13.3% for FCUSA and FCCE respectively;
- revenues beyond the five-year period extrapolated using an estimated growth rate of 2.0% for both CGUs.

The review did not identify any impairment to the goodwill due to adequate levels of headroom of the expected recoverable amount over the carrying amount. There are no CGUs for which management considers a reasonably possible change in a key assumption would give rise to an impairment. However, as the FCCE CGU is less established further sensitivity analysis was performed. If the forecast EBITDA was worse in each of the five years by over 30% the carrying value of the net assets would approximate the value in use.

10. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Net book value				
At 30 June 2018 (unaudited)	17.5	0.2	0.2	17.9
At 31 December 2018	20.8	0.5	0.2	21.5
At 30 June 2019 (unaudited)	23.3	0.4	-	23.7

11. Property, plant and equipment

As disclosed in note 2, the Group has adopted IFRS 16, effective from 1 January 2019, using the fully retrospective approach and comparative information has therefore been restated. The Group has right-of-use assets which comprise of property leases held by the Group. Information about leases for which the Group is a lessee is presented below.

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

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
Property, plant and equipment (owned)	6.5	5.0	5.3
Right-of-use assets	18.8	21.9	19.9
	25.3	26.9	25.2

Right-of-use assets

	Property £m	Total £m
Opening balance at 1 January 2018 (restated)	22.7	22.7
Additions	1.3	1.3
Depreciation	(2.1)	(2.1)
Closing balance at 30 June 2018 (restated)	21.9	21.9
Additions	0.2	0.2
Depreciation	(2.2)	(2.2)
Closing balance at 31 December 2018 (restated)	19.9	19.9
Additions	1.7	1.7
Disposals	(0.4)	(0.4)
Depreciation	(2.4)	(2.4)
Closing balance at 30 June 2019	18.8	18.8

Lease liabilities – maturity analysis

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
No later than one year	5.6	3.9	5.0
Later than one year and no later than five years	16.5	17.7	16.6
Later than five years	1.9	5.1	3.5
Total	24.0	26.7	25.1

Lease liabilities

	30 June 2019 £m	30 June 2018 (restated) £m	31 December 2018 (restated) £m
Current	5.6	3.9	5.0
Non-current	18.4	22.8	20.1
Total	24.0	26.7	25.1

12. Interest in associates

During the six month period to June 2019, the Group set up and invested in a European Private Fund. The Group's interest in the fund as at 30 June 2019 was 24.4% and this is accounted for as an investment in an associate under IAS 28. The investment in associate is held at cost and the share of associate losses for the six month period to 30 June 2019 were £45,000.

13. Investments in loans

	30 June 2019 £m	30 June 2018 £m	31 December 2018 £m
Non-current			
Investment in loans (other) – amortised cost	2.0	0.0	0.3
Current			
Investment in loans (curing) – FVTPL	2.6	5.1	4.7
Investment in loans (bond products) – FVTPL	177.3	-	-
	181.9	5.3	5.0

14. Borrowings

During 2019, the Group entered into revolving credit facility agreements of up to £220 million and \$180 million for the Group's UK and US ABS programmes respectively. As at 30 June 2019, the amounts drawn in the UK and US totalled £71.5 million and \$95.8 million, interest is payable on the borrowings in the UK and the US at 1.50% plus 1 month LIBOR and 2.5% plus the 3 month commercial paper rate respectively.

15. Provisions

	Dilapidation	Loan repurchase	Other provisions	Total
	£m	£m	£m	£m
At 1 January 2018	0.4	2.5	0.8	3.7
Charge	0.3	1.4	1.0	2.7
Amount utilised	-	(1.0)	(0.6)	(1.6)
At 30 June 2018	0.7	2.9	1.2	4.8
Charge	0.1	1.2	-	1.3
Amount utilised	-	(1.0)	(0.5)	(1.5)
At 31 December 2018	0.8	3.1	0.7	4.6
Charge	0.1	4.2	-	4.3
Amount utilised	-	(4.4)	(0.1)	(4.5)
At 30 June 2019	0.9	2.9	0.6	4.4

Current and non-current

	30 June 2019	30 June 2018	31 December 2018
	£m	£m	£m
Current provisions	3.5	4.1	3.8
Non-current provisions	0.9	0.7	0.8
Total	4.4	4.8	4.6

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

Loan repurchase provision

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

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

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

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date. Under the financial guarantee contracts, this is the point at which there is an obligation for the Group to make a payment under the contract or buy back the loan. If the loan is bought back by the Group, at the point of buy back, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired (“POCI”); this element of the reserve is therefore based on lifetime ECLs.

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

	Performing:	Underperforming:	Non-performing:	Total loan repurchase provision
	12-month ECL	Lifetime ECL	Lifetime ECL	
	£m	£m	£m	£m
At 1 January 2018	1.6	0.3	0.6	2.5
Provision against new loans originated	1.8	0.3	-	2.1
Provision against loans transferred from performing	(0.1)	0.1	1.6	1.6
Amounts utilised	-	-	(2.0)	(2.0)
Loans repaid	(0.4)	-	-	(0.4)
Change in probability of default	(0.8)	0.1	-	(0.7)
At 31 December 2018	2.1	0.8	0.2	3.1
Provision against new loans originated	2.4	0.1	-	2.5
Provision against loans transferred from performing	-	(0.4)	1.4	1.0
Amounts utilised	(2.9)	-	(1.5)	(4.4)
Loans repaid	(0.1)	-	-	(0.1)
Change in probability of default	0.5	0.3	-	0.8
At 30 June 2019	2.0	0.8	0.1	2.9

	Expected credit loss rate (%)	Basis for recognition of loan repurchase provision	Loan repurchase provision (£m)
As at 1 January 2018			
Performing	4	12 month ECL	1.6
Underperforming	59	Lifetime ECL	0.3
Non-performing	100	Lifetime ECL	0.6
		Total	2.5
As at 31 December 2018			
Performing	1	12 month ECL	2.1
Underperforming	67	Lifetime ECL	0.8
Non-performing	100	Lifetime ECL	0.2
		Total	3.1
As at 30 June 2019			
Performing	2	12 month ECL	2.0
Underperforming	84	Lifetime ECL	0.8
Non-performing	100	Lifetime ECL	0.1
		Total	2.9

The percentages applied above are based on the Group's past experience as well as forward-looking information, namely: macroeconomic forecasts such as changes in interest rates, GDP and inflation; delinquencies; and loss trends.

The items that the model is most sensitive to are delinquencies and default rates.

16. Cash outflow from operations

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
Loss before taxation	(30.8)	(27.1)	(50.9)
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	3.5	3.1	6.4
Amortisation of intangible assets	3.6	3.0	6.1
Interest receivable	(1.0)	(0.3)	(0.9)
Interest payable	0.5	0.5	1.0
Non-cash employee benefits expense – share based payments and associated social security costs	4.4	4.7	8.1
IPO costs re-allocated to financing activities	-	-	5.9
Tax (charge)/credit	(0.2)	-	1.4
Fair value loss on investment in SME loans	0.3	-	-
Movement in provisions	(0.2)	1.0	0.2
<i>Changes in working capital:</i>			
Movement in trade and other receivables	(4.4)	(6.4)	(8.1)
Movement in trade and other payables	6.2	6.1	6.1
Net cash outflow from operating activities	(18.1)	(15.4)	(24.7)

Reconciliation to free cash flow

Free cash flow has been redefined and represents net cash flows from operating and investing activities, as well as including the payment of lease liabilities and excluding the purchase of loans. The purchase of loans are mainly through the ABS warehouses which are primarily funded through bank borrowings. Pre IFRS 16 and new investor products, it was presented as the net cash flow from operating and investing activities.

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
Net cash outflow from operating activities	(18.1)	(15.4)	(24.7)
Net cash outflow from investing activities	(188.3)	(7.4)	(13.5)
Add back:			
Investment in loans	175.5	1.7	1.1
Investment in associate	5.6	-	-
Deduct:			
Payment of lease liabilities	(2.8)	(1.4)	(3.8)
Free cash flow	(28.1)	(22.5)	(40.9)

17. Cash and cash equivalents

	30 June 2019	30 June 2018 (restated)	31 December 2018 (restated)
	£m	£m	£m
Cash and cash equivalents	270.0	65.2	333.0

The cash and cash equivalents balance is made up of cash, money market funds and bank deposits. The carrying amount of these assets is approximately equal to the fair value. Included within cash and cash equivalents above is restricted cash of £1.2 million (31 December 2018: £0.4 million). At 30 June 2019, cash equivalents relating to money market funds totalled £108.0 million (31 December 2018: £150.0 million).

18. Related party transactions

The basis of remuneration of key management personnel remains consistent with that disclosed in the 2018 Annual Report and Accounts. There were no other related party transactions which had a material impact on these interim financial statements.

19. Contingent liabilities

There are currently no contingent liabilities expected to have a material adverse financial impact on the Group's consolidated and condensed results or net assets.

20. Financial risk management

The Group's financial risks and risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year to 31 December 2018.

21. Events occurring after the reporting period

There have been no events subsequent to the balance sheet date that require disclosure.

22. Fair value measurement of financial instruments

Financial risks arising from financial instruments are analysed into credit risk, liquidity risk, market risk (including currency risk, interest rate risk and other price risk) and foreign exchange risk. These interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. Details of how these risks are managed are discussed in the Funding Circle Holdings plc's financial statements for the year to 31 December 2018.

There has not been a significant change in the Group's financial risk management processes or policies since the year end.

The definitions, details of the inputs and the valuation techniques in determining the fair values of the Group financial instruments are shown in the Funding Circle Holdings plc financial statements for the year to 31 December 2018.

The Group's finance department performs the valuations of financial assets and liabilities required for financial reporting purposes, including Level 3 fair values.

There have been no changes in the valuation techniques for any of the Group's financial instruments held at fair value in each of the periods presented. Investments in loans (curing) are all classified as Level 2 under IFRS as the loans are only retained on balance sheet for 2-3 days. Investments in loans (bond products) are classified as Level 3 and are valued on a discounted cash flow basis.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements (year to 31 December 2018 and period to 30 June 2018: none).

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Investments in loan securities
- Investments in associates
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables; and
- Provisions

Categorisation of financial assets and financial liabilities

The table shows the carrying amounts of financial assets and financial liabilities by category of financial instrument:

	30 June 2019			30 June 2018			31 December 2018		
	Assets at fair value through profit and loss	Amortised cost	Total	Assets at fair value through profit and loss	Amortised cost	Total	Assets at fair value through profit and loss	Amortised cost	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Assets									
Investments in loans (other)	-	2.0	2.0	-	0.2	0.2	-	0.3	0.3
Investment in loans (curing)	2.6	-	2.6	5.1	-	5.1	4.7	-	4.7
Investment in loans (bond products)	177.3	-	177.3	-	-	-	-	-	-
Investment in associate	-	5.6	5.6	-	-	-	-	-	-
Trade and other receivables	-	27.8	27.8	-	19.5	19.5	-	23.0	23.0
Cash and cash equivalents	108.0	162.0	270.0	65.2	-	65.2	150.0	183.0	333.0
	287.9	197.4	485.3	70.3	19.7	90.0	154.7	206.3	361.0
Liabilities									
Trade and other payables	-	(24.3)	(24.3)	-	(17.9)	(17.9)	-	(23.1)	(23.1)
Borrowings	-	(146.8)	(146.8)	-	-	-	-	-	-
Lease liabilities	-	(24.0)	(24.0)	-	(26.7)	(26.7)	-	(25.1)	(25.1)
Provisions	-	(4.4)	(4.4)	-	(4.8)	(4.8)	-	(4.6)	(4.6)
	-	(199.5)	(199.5)	-	(49.4)	(49.4)	-	(52.8)	(52.8)

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, investments in loan securities (excluding those held in the warehousing phase of the bond programme and those held under cure period), investment in associate and trade and other payables. Due to their short-term nature, the carrying value of each of the above financial instruments approximates their fair value.

Financial instruments measured at fair value

IFRS 13 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement.

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

The fair value hierarchy has the following levels:

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

	Fair value measurement using								
	30 June 2019			30 June 2018			31 December 2018		
	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
Investments in loans (curing)	-	2.6	-	-	5.1	-	-	4.7	-
Investment in loans (bond products)	-	-	177.3	-	-	-	-	-	-
Cash and cash equivalents	108.0	-	-	-	-	-	150.0	-	-
	108.0	2.6	177.3	-	5.1	-	150.0	4.7	-

Loan investments held under cure period were originated during the last week of the respective reporting periods. As a result fair value is assumed to be equal to the outstanding principal amount.

The fair value of loan investments (bond products) has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the loan investments (bond products) was £177.3 million at 30 June 2019 (2018: £nil).

The most relevant significant unobservable input relates to the discount rate applied to the fair value calculation, details of which are set out below.

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in loans - Bond products	177.3	Risk-adjusted discount rate	c.6%	A change in the discount rate by 50 bps would increase/decrease fair value by £1.2 million

Fair value movements on loan investments (bond products) are recognised through the profit and loss account in Net Investment Income as part of Revenue.

A reconciliation of loan investments (bond products) is shown as follows:

Investment in loans (bond products) – FVTPL	£m
Balance as at 1 January 2019	-
Additions	175.8
Net loss on the change in fair value of financial asset at fair value through profit or loss during the year	(0.3)
Foreign exchange gain	1.8
Balance as at 30 June 2019	177.3

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held at banks.

The Group's maximum exposure to credit risk by class of financial asset is as follows:-

	30 June 2019	30 June 2018	31 December 2018
	£m	£m	£m
Non-current			
Investment in loans	2.0	0.2	0.3
Current			
Investment in loans	179.9	5.1	4.7
Trade and other receivables			
- Trade receivables	3.2	2.7	1.2
- Other receivables	9.7	4.7	6.5
- Prepayments	6.9	5.9	6.0
- Accrued income	2.0	1.2	3.6
- Rent and other deposits	6.0	5.0	5.7
Cash and cash equivalent	270.0	65.2	333.0

Investments in loans in current assets include:

- investment in loans (curing) which are loans held on average for 2 days before the physical transfer of monies from investors. The risk of financial loss is deemed minimal; and

- investment in loans (bond products) which are loans held in the warehouse phase of the ABS programme prior to securitisation. These are exposed to credit risk in a similar manner to the SME loans that are held directly by third parties investing through Funding Circle's platform.

Trade receivables represent invoiced amount in respect of servicing fees due from institutional investors. The risk of financial loss is deemed minimal because the counterparties are well established financial institutions.

Ongoing credit evaluation is performed on the financial condition of other receivable and, where appropriate, a provision for impairment is recorded in the financial statements.

Other receivables includes amounts receivable in respect of credit impaired debts acquired by the Group. The carrying amount of these loans are stated net of impairment charges, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

The credit risk on cash and cash equivalents is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's position.

The Group's liquidity position is monitored and reviewed on an ongoing basis by the Directors. As the investments in loan securities held within the ABS warehouses are planned to be securitised within a short time horizon these are classified as current assets.

Interest rate risk

a) Interest rate risk sensitivity analysis – non trading interest (fixed rate)

Interest on loan note investments is fixed until the maturity of the investment.

b) Interest rate risk sensitivity analysis – non trading interest (floating rate)

Interest on cash and cash deposit balances are subject to movements in Libor. The Directors monitors interest rate risk and note that interest rates remain at historical low. The Directors believe that any reasonable increase in the Libor rate would not significantly impact the Group.

Interest on borrowings are subject to movements in Libor and the 3 month commercial paper rate. However, the Group has taken out interest rate caps to mitigate the risk of interest rate rises.

23. Principal risks and uncertainties

Set out below are the principal risks and uncertainties that the Group faces.

Principal risk	Impact
<p>Strategic risk</p> <p>Strategic risk is defined as the failure to build a sustainable, diversified and profitable business that can successfully adapt to environment changes due to the inefficient use of Funding Circle available resources</p>	<p>Marketplace funding - Investor funding shortfall or failure to maintain a diversified investor base may impact Funding Circle's operations and ability to originate new loans.</p> <p>The ability to attract investors and secure sufficient funding from existing or new investors depends on, among other things, Funding Circle's ability to continue to provide attractive investor returns, compliance with the terms and conditions of funding agreements with investors, effective maintenance and scaling of financial, risk management and compliance controls and procedures.</p> <p>Economic environment - Financial risk that is associated with macroeconomic or political factors that may affect Funding Circle's financial and/or credit performance.</p>
<p>Credit risk</p> <p>Credit risk is the risk of suffering financial loss should any borrower fail to fulfil their contractual repayment obligations. The Group holds loans in ABS programmes and has invested in private funds and is exposed to credit risk for the period of the investment. Credit risk performance also affects the returns received by our investors and the attractiveness of Funding Circle SME loans as an investment. Hence, credit of loans is managed on behalf of both the Group and investors with the utmost care and attention to deliver credit performance in line with expectations.</p>	<p>Portfolio risk management - Errors in borrower acquisition, credit approval, scoring models and credit risk management processes may result in increasing defaults and loss rates not aligned to the Group's or investors' expectations.</p>
<p>Regulatory, reputation and conduct risk</p> <p>Regulatory, reputation and conduct risk is defined as engaging in activities that detract from Funding Circle's goal of being a trusted and reputable financial services company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure.</p>	<p>Regulatory risk – That Funding Circle's ability to effectively manage its regulatory relationships is compromised or diminished, that the Group's governance and controls framework is not satisfactory given business growth or there is business interruption by reason of non-compliance with regulation or the introduction of business-impacting regulation.</p> <p>Reputation/brand risk - Operational or performance failures could lead to could lead to negative publicity that could adversely affect the Group's brand, business, results, operations, financial condition or prospects.</p> <p>Client detriment – Funding Circle's activities (or the failure to satisfactorily perform its activities) could impact the delivery of fair customer outcomes.</p>

<p>Operational risk</p> <p>Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.</p>	<p>Information security – Failure to protect the confidential information of Funding Circle’s borrowers, investors and IT systems may lead to financial loss, reputational damage and regulatory censure.</p>
	<p>Financial crime - Risk of regulatory breach, financial loss or reputational damage arising from a failure to adequately manage or prevent money laundering, terrorist financing, bribery and corruption, or to comply with sanctions regulations</p>
	<p>Technology risk – Failure of technology platform, could have a material adverse impact on Funding Circle’s business, results of operations, financial condition or prospects</p>
	<p>Client money risk – Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure</p>

Independent review report to Funding Circle Holdings plc

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Funding Circle Holdings plc's consolidated interim financial statements (the 'interim financial statements') in the half-yearly report of Funding Circle Holdings plc for the 6 month period ended 30 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 30 June 2019;
- the condensed consolidated statement of comprehensive income;
- the condensed consolidated statement of cash flows for the period then ended;
- the consolidated statement of changes in equity for the period then ended; and
- the notes to the interim financial statements

The interim financial statements included in the half-yearly report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The half-yearly report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom.

A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 August 2019