



Half-Yearly Financial Report and Unaudited Condensed Consolidated Financial Statements

for the period from 1 April 2016 to 30 September 2016

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FORWARD-LOOKING STATEMENTS

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

SUMMARY INFORMATION

About the Company

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

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

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

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

In accordance with the Company’s investment policy, the Company holds a number of its investments in loans through special purpose vehicles. This half-yearly financial report for the period ended 30 September 2016 (the “Half-yearly Financial Report”) includes the results of Basinghall Lending Designated Activity Company (“Basinghall”) and Tallis Lending Designated Activity Company (“Tallis”). The Company, Basinghall and Tallis are collectively referred to in this report as the “Group”.

Financial Highlights as at 30 September 2016

99.64p

Cum Income Net
Asset Value per
Ordinary Share

96.37p

Ex Income Net Asset
Value per Ordinary
Share

102.50p

Ordinary Share Price

2.87%

Premium to Net Asset
Value per Ordinary
Share

£168.4mil

Market Capitalisation

- The Company has successfully deployed £151.9 million of its total capital of £161.2 million (including the issue proceeds received in July 2016)
- The Company committed £25 million to a £125 million structured finance transaction with the European Investment Bank (“EIB”) in June 2016.
- 4.3% total NAV return has been achieved since the Company started operations

CHAIRMAN'S STATEMENT

Dear Shareholder,

Introduction

I am pleased to report a solid period of progress. Since I last wrote to you on 23 June 2016, the Company has achieved the following milestones:

- Completion of an additional capital raise of approximately £15 million under the tap programme;
- Completion of the structured finance transaction with the European Investment Bank, which was announced to the market on 17 June 2016; and
- Payment of two quarterly dividends amounting to 1 pence and 1.625 pence per share, the latter of which was at a rate consistent with full investment and in accordance with the full investment target yield specified in the Company's IPO prospectus.

Risk

The Company's status as a "pure" SME lender avoids a number of risks to which other parties involved in the peer to peer lending environment are exposed, including in particular the risk associated with investing on a multi-platform basis where standards of risk management, origination, underwriting, allocation and servicing can be variable. Our origination and servicing counterparty, Funding Circle, has taken significant steps in 2016 to bring their risk management and credit underwriting processes to a point where the Company's risk committee has been able to conclude that the standards applied throughout are at least as good as those historically applied by market standards when considering SME loans. For investors, this is evidenced by the fact that, to date, the Company's delinquency profile falls within the range modelled at IPO.

Macroeconomic conditions in the UK and the US, being the Company's key geographical exposures, remain reasonably benign, and we see no likelihood of a material change in monetary policy or economic conditions in the short term, consistent with the views of other commentators and analysts. This stable environment is supportive of the Company's prospects. Nevertheless, the results of ongoing portfolio stress testing continue to support the expectation that the Company will be able to continue to deliver returns substantially in excess of the risk free rate in the face of a reasonably conceivable and historically experienced economic downturn.

At the time of writing, the Board does not see the impact of either the Republican victory in the US presidential election or a "hard Brexit", being the two key geopolitical risks applicable to our key markets, as being likely to have a material short term effect on our return performance or credit risk.

We fully hedge foreign currency exposures back to Sterling by virtue of a third party managed currency hedging programme and have no plans to change this very effective arrangement.

Future Prospects

As noted earlier, the Company has now substantially invested the funds raised from the equity market. As a result, we are focussed on delivering controlled and consistent risk adjusted performance and dividend flows to investors from our current loan portfolio, which stood at over 1,500 discrete borrower parties as at 30 September 2016, alongside continuing to oversee, test and challenge the processes operated by Funding Circle to manage risk. Beyond that, we are working to renew the Company's placing programme prospectus, which expires on 11 November 2016, and we expect to be open to new equity issuance with effect from the end of January 2017, in both ordinary and C share form. Further announcements will be made in that regard as appropriate.

Conclusion

I would like to express my thanks to the management of Funding Circle for the level of engagement, professionalism, transparency and support provided to the Company, which has greatly assisted the Board in carrying out its supervisory duties effectively. In addition, thanks go to our brokers and advisors, Goldman Sachs and Numis, and our administrative, legal and audit support functions, and of course to my fellow Board members.

RICHARD BOLÉAT

Chairman of the Board of Directors

11 November 2016

INTERIM REPORT

IN RESPECT OF THE FINANCIAL STATEMENTS

Incorporation

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

Activities

The Company is registered as a closed-ended collective investment scheme in Guernsey pursuant to the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. The primary activity of the Company is investment in loans to generate attractive returns to investors.

Strategy and Business Model

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

Investment Policy

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

Direct Investments

The Company acquires and holds US loans directly.

Indirect Investments

Indirect investments in loans shall be made at such times and in such manner as the Board may determine, having regard at all times to the investment policy and any Portfolio Limits. Indirect investments may involve participation in securitisation structures, which may involve the securitisation of loans previously acquired by the Company (or an investing company) or the acquisition or participation by the Company in interests in loans which have not previously been funded or held by the Company (or by an investing company). In either case, such investments may involve the acquisition, alongside one or more third parties, of debt or equity securities of whatever type or class (including in junior tranches) issued by special purpose vehicles or issuers established by any person.

The Company holds loans originated in the UK, Germany, Spain and the Netherlands indirectly through investments in special purpose vehicles.

Results and dividends

The total comprehensive income for the period, determined under International Financial Reporting Standards ("IFRS"), amounted to £5.37 million (period ended 31 March 2016: £1.28 million).

The Directors consider the declaration of a dividend on a quarterly basis. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by The Companies (Guernsey) Law, 2008 (as amended).

On 17 June 2016, the Directors declared the payment of an interim dividend of 1 pence per Ordinary Share to those shareholders on the register on 1 July 2016.

On 14 September 2016, the Directors declared a dividend of 1.625 pence per Ordinary Share payable on 31 October 2016 to shareholders on the register as at the close of business on 30 September 2016. The Board decided to offer shareholders a choice to receive dividends in cash or in shares via scrip dividend. The number of shares to be issued was determined using a Reference Share Price determined as the higher of (i) the prevailing average of the middle market quotations of the shares derived from the Daily Official List of the London Stock Exchange for the ex dividend date of 29 September 2016 and the four subsequent dealing days and (ii) the prevailing net asset value per share. The Reference Share Price for the scrip dividend was 103.45 pence per Ordinary Share. The Company issued 75,698 Ordinary Shares in relation to the scrip dividend option.

Business review

The Company commenced trading on 30 November 2015 after successfully completing the admission of 150 million Ordinary Shares to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange plc's Main Market. On 20 July 2016, the Company issued a further 14,285,000 Ordinary Shares at a price of £1.0153 per Ordinary Share raising net proceeds of £14,213,490 after direct issue costs of £290,071. As at 30 September 2016, the Company has deployed over 90% of the total funds raised by lending directly to SMEs in the US and indirectly to SMEs in the UK and Continental Europe ("CE").

In June 2016, the Company participated in a structured finance transaction with the EIB. The transaction involved the set up of an Irish company called Finch Lending Designated Activity Company ("Finch"). The Company invested £25 million into the Class B Note issued by Finch whilst the EIB has committed to invest up to £100 million in a senior loan to Finch.

INTERIM REPORT

IN RESPECT OF THE FINANCIAL STATEMENTS

Going concern

The Directors have considered the financial performance of the Group and the impact of the market conditions at the financial period-end date and subsequently. During the financial period the Group's NAV rose by £5.37 million as a result of operating activities. The Company's current cash holdings and projected cash flows are sufficient to cover current liabilities and projected liabilities. The Directors are therefore of the opinion that the Company and Group are a going concern and the financial statements have been prepared on this basis.

Principal risks and uncertainties

An overview of the principal risks that the Board considers to be the main uncertainties currently faced by the Group together with the mitigating actions being taken are provided in the Annual Report for the period ended 31 March 2016. The following is a summary of those risks and mitigation:

Principal risk	Mitigation and update of risk assessment	Company's financial KPI affected by risk
<p><i>Default risk</i></p> <p>Borrowers' ability to comply with their payment obligations in respect of loans may deteriorate due to adverse changes to macro-economic factors.</p>	<p>The Board has set portfolio limits and monitors information provided by the Administrator and Funding Circle on a regular basis.</p> <p>The Board believes that result of the UK-EU referendum has increased the default risk particularly on the UK borrowers although the full effect cannot be accurately determined yet.</p>	<p>Capital deployed Net return target Share price vs NAV per share Realised loss rate</p>
<p><i>Insufficient loans originated</i></p> <p>The Group may not achieve its target return due to lack of or reduction to loans available for the Group to invest in.</p>	<p>The Board monitors deployment on a regular basis and is in close dialogue with Funding Circle.</p> <p>The risk remains unchanged during the period.</p>	<p>Capital deployed Net return target</p>

There has not been any change to the principal risks and uncertainties and the measures in place to manage those risks as at the date of this report. The Directors have considered and reassessed the principal risks and deem them to still be relevant and applicable. The Directors expect this assessment to be the same for the remainder of the financial year.

Directors

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

Richard Boléat
Jonathan Bridel
Richard Burwood
Samir Desai
Frederic Hervouet

The biographies of the Directors are included on page 25.

Related party transactions

The related parties of the Group, the transactions with those parties during the period and the outstanding balances as at 30 September 2016 are disclosed in note 15 to the financial statements.

Company Secretary

The Company Secretary is Sanne Group (Guernsey) Limited of Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey GY1 1WG, Channel Islands.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE FINANCIAL STATEMENTS

To the best of their knowledge, the Directors confirm that:

- the Unaudited Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting"; and
- the Half-Yearly Financial Report, comprising the Summary Information, the Chairman's Statement and the Interim Report, meets the requirements of an interim management report and includes a fair review of information required by DTR 4.2.4 R;
 - DTR 4.2.7R of the UK Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months and their impact on the Unaudited Condensed Consolidated Financial Statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - DTR 4.2.8R of the UK Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months and that have materially affected the financial position or performance of the Group during that period, and any material changes in the related party transactions disclosed in the last annual report.

Richard Boléat
Chairman

11 November 2016

Jonathan Bridel
Chairman of the Audit Committee

11 November 2016

INDEPENDENT REVIEW REPORT

TO FUNDING CIRCLE SME INCOME FUND LIMITED

Introduction

We have been engaged by Funding Circle SME Income Fund Limited ("the Company") to review the Unaudited Condensed Consolidated Financial Statements in the Half-Yearly Financial Report for the six months ended 30 September 2016, which comprises the Unaudited Condensed Consolidated Statement of Comprehensive Income, the Unaudited Condensed Consolidated Statement of Financial Position, the Unaudited Condensed Consolidated Statement of Changes in Equity, the Unaudited Condensed Consolidated Statement of Cash Flows, and related notes. We have read the other information contained in the Half-Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Unaudited Condensed Consolidated Financial Statements

Directors' responsibilities

The Half-Yearly Financial Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-Yearly Financial Report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the Annual Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards. The Unaudited Condensed Consolidated Financial Statements included in this Half-Yearly Financial Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the Unaudited Condensed Consolidated Financial Statements included in the Half-Yearly Financial Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in producing this report, 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.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the International Auditing and Assurance Standards Board. 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 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Unaudited Condensed Consolidated Financial Statements included in the Half-Yearly Financial Report for the six months ended 30 September 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

PricewaterhouseCoopers CI LLP
Chartered Accountants
Guernsey, Channel Islands
11 November 2016

Publication of Interim Financial Report

The maintenance and integrity of the Funding Circle SME Income Fund Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Half-Yearly Financial Report and Unaudited Condensed Consolidated Financial Statements since they were initially presented on the website.

Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

	Notes	(Unaudited) 1 April 2016 to 30 September 2016 £	(Audited) 22 July 2015 to 31 March 2016 £
Operating income			
Interest income on loans advanced	3	7,883,098	1,864,930
Unrealised foreign exchange gain		4,449,589	863,421
Bank interest income		10,758	120,701
		12,343,445	2,849,052
Operating expenditure			
Realised loss on currency derivatives		3,513,471	882,189
Impairment of loans	3	1,114,256	30,192
Unrealised fair value movement on currency derivatives		960,305	2,432
Loan servicing fees	15	568,212	170,381
Legal fees		251,368	99,820
Directors' remuneration and expenses	12	128,109	103,239
Company administration and secretarial fees		110,332	92,767
Audit and audit-related fees		107,648	110,315
Corporate service fees		54,583	—
Regulatory fees		44,754	13,157
Corporate broker services		33,861	12,326
Other operating expenses		84,048	55,617
		6,970,947	1,572,435
Operating profit for the period before taxation		5,372,498	1,276,617
Taxation	9	—	—
Total comprehensive income for the period		5,372,498	1,276,617
Earnings per share			
Basic and diluted	10	3.461p	0.851p
Weighted average number of shares outstanding			
Basic and diluted	10	155,230,027	150,000,000

Other comprehensive income

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

The notes on pages 11 to 24 form part of these financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2016**

	Notes	(Unaudited) 30 September 2016 £	(Audited) 31 March 2016 £
ASSETS			
Cash and cash equivalents	5	15,626,361	56,757,244
Margin account held with bank	6	270,000	610,000
Other receivables and prepayments		21,021	225,683
Loans advanced	3	151,903,794	94,764,065
TOTAL ASSETS		167,821,176	152,356,992
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	8	161,213,490	147,000,000
Retained earnings		2,479,484	1,276,617
TOTAL SHAREHOLDERS' EQUITY		163,692,974	148,276,617
LIABILITIES			
Fair value of currency derivatives	6	962,737	2,432
Accrued expenses and other liabilities	7	3,165,465	4,077,943
TOTAL LIABILITIES		4,128,202	4,080,375
TOTAL EQUITY AND LIABILITIES		167,821,176	152,356,992
NAV per share			
Basic and diluted		105.45p	98.85p

The financial statements on pages 7 to 24 were approved and authorised for issue by the Board of Directors on 11 November 2016 and were signed on its behalf by:

Richard Boléat
Chairman

Jonathan Bridel
Chairman of the Audit Committee

The notes on pages 11 to 24 form part of these financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

	Notes	Share capital £	Retained earnings £	Total £
Balance at 31 March 2016		147,000,000	1,276,617	148,276,617
Issue of Ordinary Shares	8	14,503,561	—	14,503,561
Ordinary Shares issue costs	8	(290,071)	—	(290,071)
Dividends declared		—	(4,169,631)	(4,169,631)
Total comprehensive income for the period		—	5,372,498	5,372,498
Balance at 30 September 2016 (Unaudited)		161,213,490	2,479,484	163,692,974

	Notes	Share capital £	Retained earnings £	Total £
Balance at 22 July 2015		—	—	—
Issue of Ordinary Shares	8	150,000,000	—	150,000,000
Ordinary Shares issue costs	8	(3,000,000)	—	(3,000,000)
Total comprehensive income for the period		—	1,276,617	1,276,617
Balance at 31 March 2016 (Audited)		147,000,000	1,276,617	148,276,617

The notes on pages 11 to 24 form part of these financial statements.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

		(Unaudited) 1 April 2016 to 30 September 2016	(Audited) 22 July 2015 to 31 March 2016
	Notes	£	£
Operating activities			
Total comprehensive income for the period		5,372,498	1,276,617
Adjustments for:			
Foreign exchange gain		(4,449,589)	—
Interest income on loans advanced		(7,883,098)	(1,864,930)
Impairment of loans	3	1,114,256	30,192
Fair value movement of currency derivatives		960,305	2,432
Operating cash flows before movements in working capital		(4,885,628)	(555,689)
Loans advanced	3	(96,214,774)	(95,380,470)
Principal and interest collections on loans advanced	3	49,464,078	6,236,746
Decrease/(increase) in other receivables and prepayments		204,662	(225,683)
(Decrease)/increase in accrued expense and other liabilities		(3,582,109)	292,340
Decrease/(increase) in collateral for currency derivative	6	340,000	(610,000)
Net cash used in operating activities		(54,673,771)	(90,242,756)
Financing activities			
Proceeds from issue of Ordinary Shares	8	14,213,490	147,450,000
Initial costs of issue of Ordinary Shares	8	—	(450,000)
Dividend paid		(1,500,000)	—
Net cash from financing activities		12,713,490	147,000,000
Net (decrease)/increase in cash and cash equivalents		(41,960,281)	56,757,244
Cash and cash equivalents at the beginning of the period		56,757,244	—
Exchange gain on cash and cash equivalents		829,398	—
Cash and cash equivalents at the end of the period	5	15,626,361	56,757,244

The notes on pages 11 to 24 form part of these financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

1. GENERAL INFORMATION

The Company is a closed-ended limited liability company registered under The Companies (Guernsey) Law, 2008 (as amended) with registered number 60680. The Company is an registered collective investment scheme in Guernsey, pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987 and its Ordinary Shares are admitted to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange's main market. The Company's home member state for the purposes of the EU Transparency Directive is the United Kingdom. As such, the Company is subject to regulation and supervision by the Financial Conduct Authority, being the financial markets supervisor in the United Kingdom. The registered office of the Company is Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey GY1 1WG, Channel Islands.

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

The Company publishes monthly net asset value statements.

2. BASIS OF PREPARATION

The Company has prepared these Unaudited Condensed Consolidated Financial Statements on a going concern basis in accordance with the Disclosure and Transparency Rules of the United Kingdom Financial Conduct Authority and prepared in accordance with International Financial Reporting Standard ('IFRS') IAS 34 'Interim Financial Reporting'. This Half-Yearly Financial Report does not comprise statutory financial statements within the meaning of The Companies (Guernsey) Law, 2008 (as amended) and should be read in conjunction with the audited Consolidated Financial Statements of the Group for the period ended 31 March 2016, which have been prepared in accordance with International Financial Reporting Standards. The statutory financial statements for the period ended 31 March 2016 were approved by the Board of Directors on 23 June 2016. The opinion of the auditors on those financial statements was unqualified. The accounting policies adopted in this Half-Yearly Financial Report are unchanged since 31 March 2016 except for the change in the Operating Segments accounting policy as described in note 2.1 below. This Half-Yearly Financial Report for the period ended 30 September 2016 has been reviewed by the auditors but not audited.

2.1 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. In the financial statements for the period ended 31 March 2016, the Directors reported the Group as a single operating segment engaged in the activity of making loans. During the period from 1 April 2016 to 30 September 2016, the Directors increased their use of financial information for each jurisdiction where the loans were originated from. Although this has not resulted in a change to the allocation limits as set out in the Company's Prospectus, the Directors will continue to monitor financial information for each jurisdiction and may decide to make decisions of how to allocate the resources of the Group using this financial information. Accordingly, the Directors have reconsidered the business segments of the Group based on the jurisdiction where the loans are originated from. The Directors decided to change the accounting policy to reflect three operating segments: UK, US and Continental Europe.

3. LOANS ADVANCED

	(Unaudited) 30 September 2016	(Audited) 31 March 2016
	£	£
Balance at the beginning of the period	94,764,065	—
Advanced	96,214,774	99,166,073
Interest income	7,883,098	1,864,930
Principal and interest collections	(49,464,078)	(6,236,746)
Loans written-off (net of recoveries)	(1,036,609)	(20,194)
Impairment allowance	(77,647)	(9,998)
Foreign exchange gains	3,620,191	—
Balance at the end of the period	151,903,794	94,764,065

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

3. LOANS ADVANCED – (CONTINUED)

The Group predominantly makes unsecured loans. However as at 30 September 2016, the carrying value of loans secured by charges over properties is £21,962,286 (31 March 2016: £12,072,105). Each loan has contractual payment dates for payment of principal and interest. The Group considers a loan as past due when the borrower's repayment has not been received for at least 30 days from the scheduled payment date. As at 30 September 2016, loan principal and interest of £292,412 (31 March 2016: £43,970) were past due.

The Group has no undrawn commitments on the loans advanced as at 30 September 2016 and 31 March 2016. The Group has committed to purchase loans of £286,526 (31 March 2016: £414,238).

The agreed analysis of the past due receivables along with the amount recognised as an impairment allowance as at the reporting date was as follows. The loans included within 'Defaulted' in the table below relate to loans written off due to the borrower defaulting on payments.

30 September 2016	(Unaudited) Principal and interest £	(Unaudited) Impairment allowance £
Past due between 30 days and 60 days	246,074	56,598
Past due between 61 days to 90 days	46,338	31,047
Past due for over 90 days	—	—
Defaulted	1,056,803	1,056,803
	1,349,215	1,144,448

31 March 2016	(Audited) Principal and interest £	(Audited) Impairment allowance £
Past due between 30 days and 60 days	43,970	9,998
Past due between 61 days to 90 days	—	—
Past due for over 90 days	—	—
Defaulted	20,194	20,194
	64,164	30,192

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

	£
Impairment allowance as at beginning of the period (audited)	30,192
Additional impairment allowance (including effect of currency translation)	1,114,256
Impairment allowance at the end of the period (unaudited)	1,144,448

Finch Class B Note

In June 2016, the Company participated in a structured finance transaction with the EIB. The transaction involved the set up of an Irish company called Finch Lending Designated Activity Company ("Finch"). The Company invested £25 million into the Class B Note ("Finch Class B Note") issued by Finch whilst the EIB committed to invest up to £100 million in a senior loan to Finch. The loan has been accounted for as a held-to-maturity loan measured at amortised cost using the effective interest rate basis.

The interest income earned on the Finch Class B Note during the period was £1,621,696 which was included as a receivable as at 30 September 2016.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

4. SEGMENT REPORTING

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

The measurement basis used for evaluating the performance of each segment is consistent with the policies used for the Group as a whole. Assets, liabilities, profits and losses for each reportable segment are recognised and measured using the same accounting policies as the Group. The gains and losses on derivative financial instruments are allocated to specific segments that benefit from the hedge.

The Group's investment into Finch generated interest income that exceeds 10% of the Group's total income. Except for the loan to Finch, all of the Group's investments are loans to Small and Medium-sized Entities ("SMEs"). Each individual SME loan does not generate income that exceeds 10% of the Group's total income. The Company is domiciled in Guernsey and its subsidiaries are domiciled in Ireland. However, none of the Group's investments are domiciled in either Guernsey or Ireland. Consequently no investment income is derived from the countries of domicile of the Group entities.

The Finch Class B Note and the corresponding income have been reported under the 'UK' segment below. All items of income and expenses not directly attributable to specific reportable segments have been included in 'Other' segment.

Segment performance for the period ended 30 September 2016

	UK £	US £	CE £	Other £	Consolidated £
Interest income on loans advanced	5,463,550	2,326,901	92,647	—	7,883,098
Bank interest income	—	—	—	10,758	10,758
Unrealised foreign exchange gain	—	3,741,370	714,758	—	4,456,128
Total revenue	5,463,550	6,068,271	807,405	10,758	12,349,984
Unrealised foreign exchange loss	(3,327)	—	(3,212)	—	(6,539)
Unrealised fair value movement on currency derivatives	—	(817,549)	(142,756)	—	(960,305)
Realised loss on currency derivatives	—	(2,938,581)	(574,890)	—	(3,513,471)
Operating expenses	(444,872)	(175,000)	(70,941)	(692,102)	(1,382,915)
Impairment of loans	(282,388)	(820,642)	(11,226)	—	(1,114,256)
Total expenses	(730,587)	(4,751,772)	(803,025)	(692,102)	(6,977,486)
Profit/(loss) before tax	4,732,963	1,316,499	4,380	(681,344)	5,372,498

Segment assets and liabilities as at 30 September 2016

	UK £	US £	CE £	Other £	Consolidated £
Assets	111,195,118	43,054,609	5,462,128	8,109,321	167,821,176
Liabilities	(279,534)	(302,551)	(45,040)	(3,501,077)	(4,128,202)

Segment performance for the period ended 31 March 2016

	UK £	US £	CE £	Other £	Consolidated £
Interest income on loans advanced	1,159,668	705,262	—	—	1,864,930
Bank interest income	—	—	—	120,701	120,701
Unrealised foreign exchange gain	6	—	43	863,372	863,421
Total revenue	1,159,674	705,262	43	984,073	2,849,052

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

4. SEGMENT REPORTING (CONTINUED)

Segment performance for the period ended 31 March 2016 (continued)

	UK £	US £	CE £	Other £	Consolidated £
Unrealised fair value movement on currency derivatives	—	—	—	(2,432)	(2,432)
Realised loss on currency derivatives	—	—	—	(882,189)	(882,189)
Operating expenses	(176,004)	(53,230)	(48,123)	(380,265)	(657,622)
Impairment of loans	—	(30,192)	—	—	(30,192)
Total expenses	(176,004)	(83,422)	(48,123)	(1,264,886)	(1,572,435)
Profit before tax	983,670	621,840	(48,080)	(280,813)	1,276,617

Segment assets and liabilities as at 31 March 2016

	UK £	US £	CE £	Other £	Consolidated £
Assets	83,616,218	25,845,154	7,899,777	34,993,411	152,354,560
Liabilities	(3,862,750)	(11,452)	(27,043)	(176,698)	(4,077,943)

5. CASH AND CASH EQUIVALENTS

	(Unaudited) 30 September 2016 £	(Audited) 31 March 2016 £
Cash at bank	9,023,190	22,483,253
Cash equivalents	6,603,171	34,273,991
Balance at the end of the period	15,626,361	56,757,244

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

6. DERIVATIVES

Foreign exchange swaps are held to hedge the currency exposure generated by US dollar assets and Euro assets held by the Group (see Note 14). The hedges have been put in place taking into account the fact that derivative positions, such as simple foreign exchange swaps, could cause the Group to require cash to fund margin calls on those positions. Foreign exchange derivatives are entered into with Royal Bank of Scotland International ("RBSI"). During the period, the Group also entered into foreign exchange derivative contracts with Goldman Sachs International with terms similar to those entered into with RBSI. The contracts with Goldman Sachs International are collateralised by cash deposit. During the period, the Group renegotiated the terms of the contract with RBSI such that no collateral is required to cover negative fair value positions.

(a) Margin accounts held at bank

	(Unaudited) Fair value 30 September 2016 £	(Audited) Fair value 31 March 2016 £
Margin account held with RBSI	—	610,000
Margin account held with GS	270,000	—
Fair value of currency derivatives	270,000	610,000

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

6. DERIVATIVES – (CONTINUED)

(b) Derivative liabilities

	(Unaudited) Fair value 30 September 2016 £	(Audited) Fair value 31 March 2016 £
Valuation of currency derivatives	(962,737)	(2,432)
Fair value of currency derivatives	(962,737)	(2,432)

	(Unaudited) Fair value 30 September 2016 (£)	(Unaudited) Nominal of outstanding contracts 30 September 2016 (Currency)
Euro	(142,756)	6,708,000
USD	(819,981)	60,203,315
Total	(962,737)	

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

7. ACCRUED EXPENSES AND OTHER LIABILITIES

	(Unaudited) 30 September 2016 £	(Audited) 31 March 2016 £
Dividends declared not yet paid	2,669,631	—
Payable for loans committed but not yet funded	177,039	3,785,603
Service fees payable	104,707	65,635
Audit fees payable	118,744	110,315
Legal fees payable	56,478	95,165
Other liabilities	38,866	21,225
	3,165,465	4,077,943

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

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

8. SHARE CAPITAL

Authorised

	Number of shares
Ordinary Shares	164,285,000

*Issued and fully
paid*

	(Unaudited) Amount 30 September 2016 £	(Unaudited) Number of shares 30 September 2016	(Audited) Amount 31 March 2016 £	(Audited) Number of shares 31 March 2016
Ordinary Shares	164,503,561	164,285,000	150,000,000	150,000,000
Initial costs of issue	(3,290,071)	N/A	(3,000,000)	N/A
	161,213,490		147,000,000	

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

Rights attaching to the shares

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

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

9. TAXATION

	(Unaudited) 1 April 2016 to 30 September 2016 £	(Audited) 22 July 2015 to 31 March 2016 £
Operating profit before taxation	5,372,498	1,276,617
Tax at the standard Guernsey income tax rate of 0%	—	—
Effects of tax rates in other jurisdictions	—	—
Taxation expense	—	—

The Group may be subject to taxation under the tax rules of the jurisdictions in which it invests. During the current and prior periods, Basinghall and Tallis which are consolidated into the Group's results, were subject to a corporation tax rate of 25% in Ireland. There was no net profit subject to taxation in Ireland.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

10. EARNINGS PER SHARE (“EPS”)

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

	(Unaudited) 30 September 2016	(Audited) 31 March 2016
Profit for the purposes of basic and diluted EPS	£5,372,498	£1,276,617
Weighted average number of Ordinary Shares for the purposes of basic and diluted EPS	155,230,027	150,000,000
Basic and diluted EPS	3.461p	0.851p

11. DIVIDENDS

On 17 June 2016, the Board declared a dividend on the Ordinary Shares of 1 pence per Ordinary Share at a total amount of £1,500,000. This dividend was paid on 29 July 2016.

On 14 September 2016, the Directors declared a dividend of 1.625 pence per Ordinary Share payable on 31 October 2016 to shareholders on the register as at the close of business on 30 September 2016 at a total amount of £2,669,631. The Board offered shareholders a choice to receive dividends in cash or in shares via a scrip dividend.

The number of shares issued was determined using a Reference Share Price determined as the higher of (i) the prevailing average of the middle market quotations of the shares derived from the Daily Official List of the London Stock Exchange for the ex dividend date of 29 September 2016 and the four subsequent dealing days and (ii) the prevailing net asset value per share. The Reference Share Price for the scrip dividend was 103.45 pence per Ordinary Share. The Company issued 75,698 Ordinary Shares in relation to the scrip dividend option.

12. DIRECTORS’ REMUNERATION AND EXPENSES

	(Unaudited) 1 April 2016 to 30 September 2016 £	(Audited) 22 July 2015 to 31 March 2016 £
Directors’ fees	122,500	100,590
Directors’ expenses	5,609	2,649
	128,109	103,239

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

13. AUDIT AND AUDIT-RELATED SERVICES

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

Type of service	(Unaudited) 1 April 2016 to 30 September 2016		(Audited) 22 July 2015 to 31 March 2016	
	PwC CI £	PwC Ireland £	PwC CI £	PwC Ireland £
Audit of the financial statements	50,422	14,962	60,000	28,515
Review of half-yearly financial statements	20,000	—	—	—
Tax related services	—	7,264	6,750	15,050
Other non-audit services	15,000	—	100,000	—
	85,422	22,226	166,750	43,565

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

14. FINANCIAL RISK MANAGEMENT

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

i) Operational risk

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

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

ii) Market risk

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

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

iii) Interest rate risk

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

The Group is exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its cash.

Loans are held by the Group at amortised cost and bear fixed interest rates. The Board has not performed an interest rate sensitivity analysis on these loans as they are intended to be held until maturity. Financial instruments with floating interest rates that reset as market rates change are exposed to cash flow interest rate risk. As at 30 September 2016, the Group had £15.63 million (31 March 2016: £56.76 million) of the total assets classified as cash and cash equivalents with floating interest rates. At 30 September 2016, had interest rates increased or decreased by 25 basis points with all other variables held constant, the change in the value of future expected cash flows of these assets would have been £39,066 (31 March 2016: £141,893). The Board of Directors believes that a change in interest rate of 25 basis points is a reasonable measure of sensitivity in interest rates based on their assessment of market interest rates at the period end.

iv) Currency risk

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

The Group invests in loans denominated in US Dollars and Euro, and may invest in loans denominated in other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Board of Directors monitors the fluctuations in foreign currency exchange rates and uses forward foreign exchange contracts to hedge the currency exposure of the Group on US Dollar and Euro denominated investments.

The currency risk of the Group's non-GBP monetary financial assets and liabilities as of 30 September 2016 and 31 March 2016 including the effect of a change in exchange rates is shown below. The Directors believe that a change of 5% in currency exchange rates is a reasonable measure of sensitivity based on available data on currency rates at 30 September 2016 and 31 March 2016.

	(Unaudited) Carrying amount as at 30 September 2016 £	(Unaudited) Effect of a 5% change in currency rate £	(Audited) Carrying amount as at 31 March 2016 £	(Audited) Effect of a 5% change in currency rate £
US Dollar	42,792,131	2,139,607	43,931,427	1,527,412
Euro	8,637,017	431,851	9,973,443	389,801
Total	51,429,148	2,571,458	53,904,870	1,917,213

The Group's exposure has been calculated as at the period end and may not be representative of the period as a whole.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

14. FINANCIAL RISK MANAGEMENT - (CONTINUED)

v) *Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Many of the assets in which the Company invests are illiquid. Changes in market sentiment may make significant portions of the Company's investment portfolio rapidly more illiquid, particularly due to the types of Group's assets where there is not a broad well-established trading market.

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

Maturity profile

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

As at 30 September 2016 (unaudited)

	Within one year £	One to five years £	Over five years £	Total £
Financial assets				
Cash and cash equivalents	15,626,361	—	—	15,626,361
Loans at amortised cost	16,900,565	132,661,958	2,341,271	151,903,794
Margin account held with bank	270,000	—	—	270,000
Trade and other receivables	21,021	—	—	21,021
	32,817,947	132,661,958	2,341,271	167,821,176
Financial liabilities				
Fair value of currency derivatives	962,737	—	—	962,737
Accrued expenses and other liabilities	3,165,465	—	—	3,165,465
	4,054,303	—	—	4,128,202

As at 31 March 2016 (audited)

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

vi) *Credit risk and counterparty risk*

Credit risk is the risk of financial loss to the Group if the counterparty to a financial instrument fails to meet its contractual obligations. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. Impairment recognised on the loans at amortised cost are disclosed in note 3.

The Group's credit risks arise principally through exposures to loans acquired by the Group, which are subject to the risk of borrower default. As disclosed in note 3, the loans advanced by the Group are predominantly unsecured, but the Group holds assets as security for certain property-related loans. The ability of the Group to earn revenue is completely dependent upon payments being made by the borrower of the loan acquired by the Group.

Credit quality

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

14. FINANCIAL RISK MANAGEMENT- (CONTINUED)

vi) Credit risk and counterparty risk - (continued)

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

Internal grade	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	Carrying value as at 30 September 2016 £	% of Carrying value as at 30 September 2016	Carrying value as at 31 March 2016 £	% of Carrying value as at 31 March 2016
A+	41,457,618	27.29	30,258,928	31.93
A	37,104,575	24.43	27,804,077	29.34
B	27,182,201	17.89	19,270,393	20.34
C	13,589,420	8.95	11,685,191	12.33
D	4,322,638	2.85	3,708,412	3.91
E	1,625,646	1.07	2,037,064	2.15
Not graded*	26,621,696	17.52	—	—
	151,903,794	100.00	94,764,065	100.00

* - This relates to the Finch Class B Note as described in note 3. Finch is an indirect investment into Credit Assets through a structured finance transaction. The investments of Finch are loans originated in the UK which are subject to the same internal grading as per above.

The credit grade assigned to a borrower is determined by Funding Circle using an internal rating process that uses a number of factors including expected annualised loss rates.

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

Allocation limits

The proportionate division between loans originated through the various Marketplaces (as defined in the Prospectus) must fall within the ranges set out below:

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

Other limitations

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

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

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

14. FINANCIAL RISK MANAGEMENT - (CONTINUED)

vi) Credit risk and counterparty risk - (continued)

As at 30 September 2016 and 31 March 2016, the Group held cash with the following financial institutions:

	(Unaudited) Amount as at 30 September 2016 £	(Audited) Amount as at 31 March 2016 £	Short term credit rating (S&P)
HSBC	4,126,981	5,841,564	A-1+
Santander	4,500,000	19,100,000	A-1
Barclays	5,248,271	17,393,508	A-2
Lloyds	1,751,109	14,422,172	A-1

The Group may use forward foreign currency transactions to minimise the Group's exposure to changes in foreign exchange rates. The Group is exposed to counterparty credit risk in respect of these transactions. The Board of Directors employs various techniques to limit actual counterparty credit risk, including the requirement for cash margin payments or receipts for foreign currency derivative transactions on a regular basis. As at the financial period-end, the Group's derivative counterparties were Royal Bank of Scotland International ("RBSI") and Goldman Sachs International ("GSI"). The long term-credit rating as at 30 September 2016 assigned by Moody's to RBSI was Ba1 (31 March 2016: Ba1) and to GSI was A1.

Fair value estimation

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

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes "observable" requires significant judgement by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

The Group's only financial instruments measured at fair value as at 30 September 2016 and 31 March 2016 are its currency derivatives. The fair values of the currency derivatives were estimated by RBSI and Goldman Sachs based on the GBP-USD forward exchange rate, the GBP-EUR forward exchange rate, the GBP-USD spot rate and the GBP-EUR spot rate as at 30 September and 31 March 2016. The Board of Directors believe that the fair value of the currency derivatives falls within level 2 in the fair value hierarchy described above.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

14. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Fair value estimation - (continued)

The following table presents the fair value of the Group's assets and liabilities not measured at fair value as at 30 September 2016 and 31 March 2016 but for which fair value is disclosed:

30 September 2016 (Unaudited)				
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Loans advanced	—	—	151,903,794	151,903,794
Cash and cash equivalents	15,626,361	—	—	15,626,361
Other receivables and prepayments	—	21,021	—	21,021
Accrued expenses and other liabilities	—	(3,165,465)	—	(3,165,465)
	15,626,361	(3,144,444)	151,903,794	164,385,711

31 March 2016 (Audited)				
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Loans advanced	—	—	94,764,065	94,764,065
Cash and cash equivalents	56,757,244	—	—	56,757,244
Other receivables and prepayments	—	225,683	—	225,683
Accrued expenses and other liabilities	—	(4,077,943)	—	(4,077,943)
	56,757,244	(3,852,260)	94,764,065	147,669,049

The Board of Directors believe that the carrying values of the above instruments approximate their fair values. The fair value of loans advanced is estimated to be approximate to the carrying value because the Directors believe that the effect of re-pricing between origination date and the date of this report is not material. In the case of cash and cash equivalents, other receivables and prepayments, and accrued expenses and other liabilities the amount estimated to be realised in cash are equal to their value shown in the unaudited Condensed Consolidated Statement of Financial Position due to their short term nature.

There were no transfers between levels during the period and the prior period.

Capital risk management

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

The Group is not subject to externally imposed capital requirements. However, certain calculations on the employment of leverage are required under the Alternative Investment Manager Directive ("AIFMD"). As at 30 September 2016 and 31 March 2016, the Group had not employed any leverage.

15. RELATED PARTY DISCLOSURE

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

	£
Chairman	50,000
Audit Committee Chairman	40,000
Risk Committee Chairman	35,000
Other directors	30,000
	155,000

Samir Desai who is a member of the Board of Directors has waived his fees as a director of the Company. Samir Desai is a substantial shareholder in, a director and employee of Funding Circle UK. Richard Burwood is also a director of Basinghall and Tallis and is entitled to receive £5,000 per annum as director's fees from each of the companies.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2016

15. RELATED PARTY DISCLOSURE – (CONTINUED)

The Directors held the following number of shares as at 30 September 2016 and 31 March 2016:

	(Unaudited)		(Audited)	
	As at 30 September 2016		As at 31 March 2016	
	Number of shares	% of total shares in issue	Number of shares	% of total shares in issue
Richard Boléat	5,000	0.0030	5,000	0.0033
Jonathan Bridel	5,000	0.0030	5,000	0.0033
Richard Burwood	5,000	0.0030	5,000	0.0033
Samir Desai	148,138	0.0902	148,138	0.0987
Frederic Hervouet	107,000	0.0651	5,000	0.0033
	270,138		168,138	

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

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

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

	Transaction	(Unaudited)	(Unaudited)	(Audited)	(Audited)
		Expense during the period ended 31 September 2016	Payable as at 30 September 2016	Expense during the period ended 31 March 2016	Payable as at 31 March 2016
		£	£	£	£
Funding Circle UK	Servicing fee	384,974	64,806	117,151	54,183
Funding Circle UK	Corporate services fee	54,583	13,578	—	—
Funding Circle UK	Reimbursement of expenses	6,768	839	—	—
Funding Circle US	Servicing fee	175,000	34,005	53,230	11,452
Funding Circle CE	Servicing fee	8,238	6,877	—	—

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

There were no loans purchased by Funding Circle during the period from 1 April 2016 to 30 September 2016.

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2016**

16. INVESTMENT IN SUBSIDIARIES

The Company had the following subsidiaries as at 30 September 2016 and 31 March 2016, whose results were fully consolidated during those periods:

	Country of incorporation	Principal activity	Transactions	(Unaudited) Outstanding amount at 30 September 2016 £	(Audited) Outstanding amount at 31 March 2016 £
Basinghall Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in the UK	Subscription of notes issued	80,235,760	78,800,000
Tallis Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in Spain, Germany and the Netherlands	Subscription of notes issued	5,457,762	7,920,900
				85,693,522	86,720,900

17. SUBSEQUENT EVENTS

On 27 October 2016, the Company issued 75,698 Ordinary Shares of no par value in relation to the scrip dividend option provided to shareholders in September. The shares were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market.

Following the issue, the Company's issued share capital comprised 164,360,698 Ordinary Shares.

BOARD OF DIRECTORS

Richard Boléat

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

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

Richard Burwood

Management Engagement Committee Chairman, Non-executive Director

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

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

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

Samir Desai

Executive Director

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

Jonathan (Jon) Bridel

Audit Committee Chairman, Non-executive Director

Mr Bridel is currently a non-executive Chairman or director of various listed and unlisted investment funds and private equity investment managers. Listings include The Renewables Infrastructure Group Limited (FTSE 250), Alcentra European Floating Rate Income Fund Limited, Starwood European Real Estate Finance Limited and Sequoia Economic Infrastructure Income Fund Limited which are listed on the premium segment of the London Stock Exchange. He is also Chairman of DP Aircraft 1 Limited and a director of Fair Oaks Income Fund Limited. He was until 2011 Managing Director of Royal Bank of Canada's investment businesses in Guernsey and Jersey. This role had a strong focus on corporate governance, oversight, regulatory and technical matters and risk management. He is a Chartered Accountant and has specialised in Corporate Finance and Credit. After qualifying as a Chartered Accountant in 1987, Mr Bridel worked with Price Waterhouse Corporate Finance in London and subsequently served in a number of senior management positions in Australia and Guernsey in corporate and offshore banking and specialised in credit. This included heading up an SME Lending business for a major bank in South Australia. He was also chief financial officer of two private multi-national businesses, one of which raised private equity. He holds qualifications from the Institute of Chartered Accountants in England and Wales where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. He graduated with an MBA from Durham University in 1988. Mr Bridel is a chartered marketer and a member of the Chartered Institute of Marketing, the Institute of Directors and is a chartered fellow of the Chartered Institute for Securities and Investment.

Frederic Hervouet

Risk Committee Chairman, Non-executive Director

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

Mr. Hervouet was Managing Director and Head of Commodity Derivatives Asia for BNP Paribas including Trading, Structuring and Sales. Mr. Hervouet has worked under different regulated financial markets based in Singapore, Switzerland, United Kingdom and France. Most recently, Mr. Hervouet was a member of BNP Paribas Commodity Group Executive Committee and BNP Paribas Credit Executive Committees on Structured Finance projects (structured debt and trade finance). Mr. Hervouet holds a Master Degree (DESS 203) in Financial Markets, Commodity Markets and Risk Management from University Paris Dauphine and an MSc in Applied Mathematics and International Finance. He is a member of the UK Institute of Directors, a member of the Guernsey Chamber of Commerce and a member of the Guernsey Investment Fund Association. Mr. Hervouet is a resident of Guernsey.

AGENTS AND ADVISORS

Funding Circle SME Income Fund Limited

Company registration number: 60680
(Guernsey, Channel Islands)

Registered office

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Channel Islands
E-mail: ir@fcincomefund.com
Website: fcincomefund.com

Company Secretary and Administrator

Sanne Group (Guernsey) Limited

Third Floor, La Plaiderie Chambers
La Plaiderie
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Guernsey GY1 1WG
Channel Islands

Legal advisors as to Guernsey Law

Mourant Ozannes

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Guernsey GY1 4HP
Channel Islands

Legal advisors as to English Law

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Dublin 2
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Portfolio Administrator

Funding Circle Ltd

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London EC4V 4AY
United Kingdom

Sole Global Co-ordinator, Bookrunner and Sponsor

Goldman Sachs International

Peterborough Court
133 Fleet Street
London EC4A 2BB
United Kingdom

Corporate broker and Co-Bookrunner

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10 Paternoster Square
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United Kingdom

UK Transfer Agent and Receiving Agent

Capita Registrars Limited (trading as Capita Asset Services)

The Registry
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Beckenham
Kent BR3 4TU
United Kingdom

Registrar

Capita Registrars (Guernsey) Limited

Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey GY2 4LH
Channel Islands

GLOSSARY

Definitions and explanations of methodologies used:

“Administrator”	Sanne Group (Guernsey) Limited
“AGM”	Annual General Meeting
“AIC Code”	the AIC Code of Corporate Governance
“AIC”	the Association of Investment Companies, of which the Company is a member
AIFM”	Alternative Investment Fund Manager, appointed in accordance with the AIFMD
“AIFMD”	the Alternative Investment Fund Managers Directive
“Available Cash”	cash determined by the Board as being available for investment by the Company in accordance with the Investment Objective, and, in respect of Basinghall and Tallis cash determined by the Board of each of Basinghall and Tallis Board (having regard to the terms of the Origination Agreement and the Note) to be available for investment by Basinghall and Tallis and excluding (without limitation) amounts held as reserves or pending distribution
“Company Secretary”	Sanne Group (Guernsey) Limited
“Credit Assets”	loans or debt or credit instruments of any type originated through any of the Marketplaces
“Cum Income Net Asset Value per Ordinary Share”	Net asset value divided by the number of Ordinary Shares outstanding as at the end of the period
“Ex Income Net Asset Value per Ordinary Share”	Net asset value excluding current period profit divided by the number of Ordinary Shares outstanding as at the end of the period
“Funding Circle”	Funding Circle UK, Funding Circle US or either of their respective Affiliates (as defined in the Prospectus of the Company), or any or all of them as the context may require
“Funding Circle CE”	Funding Circle CE GmbH and Funding Circle Deutschland GmbH
“Funding Circle Netherlands”	Funding Circle Nederlands B.V.
“Funding Circle Spain”	Funding Circle España SLU
“Funding Circle UK”	Funding Circle Limited
“Funding Circle US”	FC Marketplace, LLC
“Marketplaces”	the marketplace platforms operated in the UK and the US, respectively, by Funding Circle, together with any similar or equivalent marketplace platform established or operated by Funding Circle in any jurisdiction
“NAV return”	Increase net asset value per share from the initial net asset value per share
“Note” or “Profit Participating Note”	notes issued by Basinghall Lending Designated Activity Company and Tallis Lending Designated Activity Company under their separate note programmes
“PwC”	PricewaterhouseCoopers CI LLP and PricewaterhouseCoopers Ireland
“PwC CI”	PricewaterhouseCoopers CI LLP
“PwC Ireland”	PricewaterhouseCoopers Ireland

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