Half-Yearly Financial Report and Condensed Consolidated Financial Statements

for the six-month period ended 30 September 2018

Funding Circle
SME Income Fund

CONTENTS

FORWARD-LOOKING STATEMENTS

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

FINANCIAL HIGHLIGHTS

- Ordinary share net asset value ("NAV") increased to £326 million from £308 million.
- Total comprehensive income for the period amounted to £0.68 million after deducting the effect of adoption of IFRS 9 amounting to approximately £8.28 million (2017: £8.35 million without IFRS 9 adjustment).
- Aggregate annualised dividends of 5.9 pence per Ordinary share declared for the period ended 30 September 2018, which is in line with the adjusted dividend target of 5 to 6 pence per Ordinary share with effect from 30 September 2018.
- The Company issued 24,928,394 new Ordinary shares at a price of 100.23 pence per share.
- The Group increased its lending to a special purpose vehicle established with Citibank by £16 million during the period which was used to increase investment in UK SME loans.

The information below is presented as at 30 September 2018 unless expressly stated to cover a period.

NAV per Ordinary share	Total Net Assets	Ordinary share price	Market Capitalisation	Premium / (Discount)
97.52p	**£326mil**	**102.00p**	**£341mil**	**4.6%**

Annualised Dividends per Ordinary share	Earnings per Ordinary share (after effect of IFRS 9)	Earnings per Ordinary share (before effect of IFRS 9)	Share Price Total Return (inception to date)	NAV Total Return (inception to date)
5.9p	**0.21p**	**2.69p**	**18.2%**	**14.8%**

SUMMARY INFORMATION

About the Company

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

Capital Management

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

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

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

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

In April 2017, the Company issued 142 million C shares at a price of £1 per C share raising net proceeds of £139,870,000 after issue costs of £2,130,000. The C shares were admitted to the Premium Segment of the Official List of the UK Financial Conduct Authority and to trading on the London Stock Exchange's Main Market on 12 April 2017. The C shares converted to Ordinary shares on 20 December 2017.

In January 2018, the Company entered into a transaction with Citibank to establish Lambeth Lending Designated Activity Company ("Lambeth") to make loans to UK small businesses through the Funding Circle platform. Under the terms of the agreement, Citibank London ("Citibank") provided £50 million into the transaction, by entering into a senior floating rate loan. The Group initially contributed a portfolio of existing UK small business loans with a value of £53,472,022. The Citibank transactional documents were amended in July 2018 whereby the Senior Loan from Citibank was increased to £66 million with a corresponding net increase to the Group's lending of £16,975,909. The net increase in the Group's participation on this transaction was made through a transfer of loan portfolio with amortised cost value of £32,925,909 and payment of £50,000 cash. This was subsequently reduced by the £16,000,000 repayment funded by the proceeds from Citibank's Senior Loan.

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

In August 2018, the Group entered into a transaction to provide lending to a special purpose vehicle, Queenhithe Lending Designated Activity Company ("Queenhithe"), that will make loans to UK small businesses. The Group provided initial funding of approximately £9.2 million through subscription into the Class B note issued by Queenhithe. In November 2018, the transaction was updated whereby the Department for Business, Energy and Industrial Strategy ("BEIS") – the British Business Bank's ("BBB") sole shareholder – will provide up to £150 million of funding via a senior floating rate loan to Queenhithe. It is expected that the senior loan facility will be drawn down over a period of up to 18 months, after which there will be a reinvestment period of a further 18 months before the facility begins to amortise monthly, with principal repayment in relation to the Group's investment sequential to the senior loan. The facility comes with a 12-year legal maturity.

The Company issued scrip dividends during the period amounting to £1,529,529 and 1,473,534 shares (2017: £1,260,650 and 677,466 shares).

Group Structure

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

In accordance with the Company's investment policy, the Company holds a number of its investments in loans through SPVs. This report for the period ended 30 September 2018 (the "Half-Yearly Report") includes the results of Basinghall Lending Designated Activity Company ("Basinghall"), Tallis Lending Designated Activity Company ("Tallis"), Lambeth and Queenhithe. The Company, Basinghall, Tallis, Lambeth and Queenhithe are collectively referred to in this report as the "Group".

CHAIRMAN'S STATEMENT

Dear Shareholder,

During the three years since inception shareholders have earned total NAV returns of +13.4%; however, I am now reporting on what has been a more challenging period for the Company. My review must cover the 6 month period ended 30th September 2018, but I am also taking the opportunity to speak to the period up to 30th November 2018 given the Company's recent period of performance below guidance.

Performance Review

In April and again in June the Company recognised accounting adjustments totalling -1.8% of NAV resulting from the adoption of IFRS9.

Since the Company published revised forward guidance on 29 June, it has realised a NAV total return of -0.4% (1 July – 30 November 2018) which represents a significant deviation versus earlier expectations. Evidence has now started to emerge through credit stress that this is largely, though not exclusively, attributable to the underperformance of certain UK loan cohorts from 2016 and 2017 and specifically in respect of younger businesses and/or those with guarantors with a low consumer score - typically borrowers assigned to Funding Circle's higher risk bands. Funding Circle attributes performance degradation in this segment of the book to rising UK personal insolvencies as wages struggle to keep pace with the cost of living. Funding Circle has reacted to these developments by making changes to its pricing and credit strategy for the UK market during the past quarter, including incorporating data directly from an applicant's bank into its latest risk model. It expects new loans written and acquired by the Company to yield 6-7% on an aggregated net basis following these changes. However, the Company's exposure to the affected prior UK cohorts adversely impacts expected returns. Moreover, the impact to the Company is magnified through its use of leverage applied to the UK portfolio in particular.

Credit performance of the US, German and Dutch loan books continues to be in line with expectations.

A further impact on Company performance derives from costs exceeding initial forecasts. Much of this cost impact is of a "one-off" nature, particularly in respect of professional fees relating to the Company's structured finance transactions and IFRS9 modelling, some of which has been taken against 2018 performance. Nevertheless, the upfront impairment provision that is required to be charged on all new loans as a result of the introduction of IFRS9 earlier in the year will continue to serve as a drag on performance as the Company draws down the BBB facility.

The elevated costs of hedging US dollar exposure deriving from the Company's US loan book back to Sterling have also had a significant performance impact, as previously reported to you. The Board's assessment is that these increased costs, which arise as a result of the interest rate differential between Sterling and the US Dollar, and which have widened further since the summer, are unlikely to narrow materially in the reasonably foreseeable future. Indeed, it is conceivable that further widening may occur in the event of an unfavourable outcome to the UK from the ongoing Brexit negotiations. The Board has already taken action to reduce its exposure to US Dollar assets and has now resolved to reduce this further over the short to medium term. This will be achieved by allowing the US portfolio to amortise without reinvesting principal and interest proceeds; however, the Board may also look to reduce USD exposure more swiftly if suitably performance accretive opportunities arise.

As a result of ongoing US loan book amortisation, the Company will have surplus liquidity to deploy away from the US market. To the extent that these funds are not dedicated to dividends or allocated to capital management activities as discussed in more detail below, the Board, having carried out a relative value assessment, has agreed with Funding Circle that the Company's exposure to German and Dutch loans will be gradually increased. It is the Board's intention in due course to seek approval from shareholders to increase the maximum permitted exposure to European (ex-UK) loans from the current limit of 15% of the Company's Gross Asset Value to 50%.

UK Geopolitical Developments

The Board is acutely aware of the uncertain macroeconomic environment derived from the UK's impending exit from the EU. Whilst the Board does not as yet have any direct evidence for Brexit-related credit stress within its portfolio, it has determined that there is a significant risk to the UK economy and SME borrowers from the UK leaving the EU and as such has deemed it appropriate to take a more cautious view on potential UK loan returns by building in anticipation of a delinquency increase when providing forward guidance. I would note, however, that the likely outcome of the Brexit process on the UK economy and the UK SME sector is not possible to predict with any accuracy at this time, and may differ materially from our base case.

Capital Management Strategy

The Company's ordinary shares are trading at a significant discount to net asset value per share. As a result, the Board has resolved to commence repurchasing the Company's shares in the secondary market. The Board currently intends to continue to repurchase shares in the secondary market to the extent that liquidity is available to do so, that the Board assesses the trading price of the Company's ordinary shares to be attractive, and to the extent authorised by the Company's shareholders from time to time. The Company will make the usual market announcements at the appropriate times.

CHAIRMAN'S STATEMENT

Forward Guidance and Dividend Policy

Shareholders will have interpreted from the foregoing that the Board has reappraised the Company's prospects. The Board wishes to guide investors towards a total NAV return for the 12 month period ended 31 December 2019 of 4% (+/- 50bps). We will update this guidance on a semi-annual basis and more frequently if material new information becomes available in respect of evolving credit performance or other material factors impacting performance.

The Board have also given intensive and detailed consideration to the future prospects of the Company over the medium term, which for the purposes of this statement is defined as the period to 31 December 2020. As a result of this appraisal, the Board has resolved to maintain the Company's dividend payment of 5.25 pence per share (on an annualised basis) for at least the period to 30 June 2019, despite such dividend likely being uncovered. This represents a change to the Company's prior position of not paying an uncovered dividend, and is made on the basis that the Board believes, on the information available to it, that there is a realistic prospect of the Company being able to reach a position where the dividend is once again covered on an ongoing basis within the medium term.

Conclusion

Performance of the Company in recent months has been far from satisfactory. Both the Board and Funding Circle are determined and fully committed to taking whatever steps are possible and desirable to return the Company to a satisfactory level of risk adjusted returns over the long term. Much will depend on the future delinquency levels arising in the portfolio and you will see reports on this in our monthly newsletters as performance evidence evolves.

RICHARD BOLÉAT
Chairman of the Board of Directors
18 December 2018

INTERIM REPORT

Incorporation

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

Activities

The Company is registered as a closed-ended collective investment scheme in Guernsey pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended. The primary activity of the Company is investment in loans to small and medium sized enterprises in the United Kingdom, the United States and Continental Europe, in order to seek to provide shareholders with a sustainable and attractive level of dividend income.

Defined Terms

Definitions appearing in this Interim Report used are shown on pages 34 to 35. The Company's prospectus, which may be found on the Company's website at www.fcincomefund.com contains a more comprehensive list of defined terms.

Strategy and Business Model

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

Investment Policy

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

Credit Assets

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

Direct Investments

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

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

Indirect Investments

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

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

- The acquisition, alongside one or more third parties, of debt or equity securities of whatever type or class (including in junior tranches) issued by special purpose vehicles or issuers established by any person (including Funding Circle and/or its Affiliates) in respect of the securitisation of underlying Credit Assets which have not previously been funded or held by the Group.

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Investment Policy (continued)

Indirect Investments (continued)

- The securitisation by the Group of Credit Assets initially funded or held by the Group through the formation of a bankruptcy remote SPV and the issuance by the Group of certain asset backed securities secured on the assets within that SPV. Those asset backed securities may be acquired by one or more third parties, as well as by the Group which may acquire debt or equity securities of whatever type or class (including in junior tranches) so issued.

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

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

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

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

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

As at 30 September 2018, the Company holds indirect investments in loans through the following investing companies:

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

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

Allocation Limits and Other Limitations

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

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

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

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

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Borrowing Limitation

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

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

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

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

The Company's leverage ratio, taking into account the EIB transaction and the Citibank transaction on a "look through" basis, was approximately 49% as at 30 September 2018 (30 September 2017: 32%) which is within the Board's approved leverage limit of 50%.

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

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

Uninvested Cash

The Company may invest cash held for working capital purposes and pending investment or distribution in cash or cash equivalents, government or public securities, money market instruments, bonds, commercial paper or other debt securities with banks or other counterparties having a "BBB" (or equivalent) or higher credit rating as determined by any internationally recognised rating agency selected by the Board (which may or may not be registered in the EU).

Results and dividends

The total comprehensive income for the period, determined under International Financial Reporting Standards ("IFRS"), amounted to £677,437 (2017: £6,481,787) after taking into account the reduction in profit by £8,275,691 from the adoption of IFRS 9. The Directors consider the declaration of a dividend on a quarterly basis. The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by The Companies (Guernsey) Law, 2008 (as amended). Dividends declared during the period are disclosed in note 12.

Business review

Financing activities

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

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

The Citibank transaction was amended and restated in July 2018 whereby the Senior Loan from Citibank was increased to £66 million with a corresponding net increase to the Group's lending of £16,975,909.

Business review – (continued)

Financing activities – (continued)

In August 2018, the Group entered into a transaction to provide lending to a special purpose vehicle, Queenhithe, that will make loans to UK small businesses. The Group provided an initial funding of approximately £9.2 million through subscription into the Class B note issued by Queenhithe. In November 2018, the transaction was updated whereby the Department for Business, Energy and Industrial Strategy ("BEIS") – the British Business Bank's ("BBB") sole shareholder – will provide up to £150 million of funding via a senior floating rate loan to Queenhithe.

Adoption of IFRS 9

The Group formally adopted IFRS 9 from 1 April 2018. The implementation of IFRS 9 from April 2018 led to a net decrease in profit for the period of £8,275,691. A more detailed analysis of the effect of the adoption of IFRS 9 is provided in note 2 to the condensed consolidated financial statements.

Principal Risk and Risk Management

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

The Board of Directors has overall responsibility for risk management and internal control within the context of achieving the Company's objectives. The Board agrees the strategy for the Company, approves the Company's risk appetite and monitors the risk profile of the Company. The Company also maintains a risk register to identify, monitor and control risk concentration.

The Company established a risk matrix during the initial public offering process, consisting of the key risks and controls in place to mitigate those risks. The risk matrix provides a basis for the Audit Committee and the Board to regularly monitor the effective operation of the controls and to update the matrix when new risks are identified. The Board's responsibility for conducting a robust assessment of the principal risks are embedded in the Company's risk matrix and stress testing which helps position the Company to ensure compliance with The Association of Investment Companies Code of Corporate Governance's ("the AIC Code") requirements.

The Board continues to monitor the Company's systems of risk management and internal control and will continue to receive updates from the Company's external service providers to ensure that the principal risks and challenges faced by the Group are fully understood and managed appropriately. The Board did not identify any significant weaknesses during the period and up to the date of this Half-Yearly Report.

An overview of the principal risks and uncertainties that the Board considers to be currently faced by the Company are provided below, together with the mitigating actions being taken. The Directors have also linked the key performance indicators to the risks where relevant. Risks arising from the Group's use of financial instruments have not changed from those disclosed in the annual report as at 31 March 2018.

Principal risk	Mitigation and update of risk assessment	Company's financial KPI affected by risk
Default risk Borrowers' ability to comply with their payment obligations in respect of loans may deteriorate due to adverse changes in economic and political factors. Actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.	The Board has set portfolio limits and monitors information provided by the Administrator and Funding Circle on a regular basis. The impact of the uncertainties facing the UK and the EU as they continue negotiations over the United Kingdom's withdrawal from the European Union cannot be quantified. The Board has assessed that this risk may have been impacted but the magnitude and direction of the change remains unclear at this stage. Economic uncertainties or developments including increases in interest rates may also impact upon default rates. Increases in interest rates is considered before Funding Circle offers loan facilities and all loans have a fixed interest rate.	Capital deployed NAV total return Share price vs NAV per share Credit losses

Principal Risk and Risk Management – (continued)

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

In addition to the principal risks considered above, the Board also considers other key operational risks as part of its ongoing risk monitoring process.

The Company has no employees and is reliant on the performance of third party service providers

The Company's investment administration functions have been outsourced to external service providers. Any failure by any external service provider to carry out its obligations could have a materially detrimental impact on the effective operation, reporting and monitoring of the Company's financial position. This may have an effect on the Company's ability to meet its investment objectives successfully. The Board receives and reviews reports from its principal external service providers. The Board may request a report on the operational effectiveness of controls in place at the service providers. The results of the Board's review are reported to the Management Engagement Committee.

Cybersecurity breaches

The Company is reliant on the functionality of Funding Circle's software and IT infrastructure to facilitate the process of the Company acquiring Credit Assets. The Company is also reliant on the functionality of the IT infrastructure of its other service providers. These systems may be prone to operational, information security and related risks resulting from failures of, or breaches in, cybersecurity.

Risk models

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

Along with other holders of risk assets generally, the Group is exposed to a range of macroeconomic, geopolitical and regulatory factors which could, in certain circumstances either individually or in combination have a negative effect on carrying values, portfolio returns, delinquencies and operating costs. These factors are kept under review by the Board and relevant Board committees as appropriate.

Going concern

The Directors have considered the financial performance of the Group and the impact of the market conditions at the period end date and subsequently. During the financial period the Group's NAV rose (prior to the declaration and payment of dividends and taking into account the effect of IFRS 9 adoption of £8.28 million) by £18 million or approximately 6% arising from profits and additional funding from the issue of shares. The Company's current cash holdings and projected cash flows are sufficient to cover current liabilities and projected liabilities. The Directors are therefore of the opinion that the Company and Group are a going concern and the condensed consolidated financial statements have been prepared on this basis.

Directors

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

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

Phillip Hyett, who is Head of Funds at Funding Circle, is approved to act as Alternate Director for Sachin Patel.

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Directors' shares and interests

A list of all Directors who served during the period and up to the date of this report and their biographies are included on pages 31 to 32.

The appointment and replacement of Directors is governed by the Company's Articles of Incorporation, The Companies (Guernsey) Law 2008 (as amended) and related legislation. The Articles of Incorporation themselves may be amended by special resolution of the shareholders.

As at 30 September 2018, the Directors held the following Ordinary shares of the Company:

	Number of shares	
	30 September 2018	**31 March 2018**
Frederic Hervouet	**107,000**	107,000
Jonathan Bridel	**5,000**	5,000
Richard Boléat	**5,000**	5,000
Richard Burwood	**5,000**	5,000
Sachin Patel	**—**	—
	122,000	122,000

During the period, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment). Mr Patel is an employee of Funding Circle Limited.

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 2018 are disclosed in Note 14 to the condensed consolidated 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.

By order of the Board

Authorised Signatory
Sanne Group (Guernsey) Limited, Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

- the Condensed Consolidated Financial Statements have been prepared in accordance with IAS 34, "Interim Financial Reporting"; and
- the Half-Yearly Financial Report, comprising the Financial Highlights, 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 the information required by DTR 4.2.4 R;
    - DTR 4.2.7R of the UK Disclosure Guidelines and Transparency Rules, being an indication of important events that have occurred during the first six months and their impact on the 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 Guidelines 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 the period, and any material changes in the related party transactions disclosed in the last annual report.

The maintenance and integrity of the Group and Company's website is the responsibility of the Directors. The work carried out by the independent auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the 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.

Richard Boléat	**Jonathan Bridel**
Chairman	***Chairman of the Audit Committee***
18 December 2018	18 December 2018

INTERIM REVIEW REPORT

TO THE MEMBERS OF FUNDING CIRCLE SME INCOME FUND LIMITED

Our conclusion

We have reviewed the accompanying condensed consolidated interim financial information of Funding Circle SME Income Fund Limited (the "Company") and its subsidiaries (together the 'Group') as of 30 September 2018. Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The accompanying condensed consolidated interim financial information comprises:

- the Condensed Consolidated Statement of Financial Position as of 30 September 2018;
- the Condensed Consolidated Statement of Comprehensive Income for the six-month period then ended;
- the Condensed Consolidated Statement of Changes in Shareholders' Equity for the six-month period then ended;
- the Condensed Consolidated Statement of Cash Flows for the six-month period then ended; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibilities and those of the directors

The Directors are responsible for the preparation and presentation of this condensed consolidated interim financial information 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 this condensed consolidated interim financial information 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.

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 inquiries, 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.

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 CI LLP
Chartered Accountants
Guernsey, Channel Islands

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2018

	Notes	(Unaudited) 2018 £	(Unaudited) 2017 £
Operating income			
Interest income on loans advanced	3	19,442,762	11,972,032
Net income on financial asset at fair value through profit or loss	4	1,736,263	—
Bank interest income		28,003	105,223
		21,207,028	12,077,255
Operating expenditure			
Impairment of loans	2,3	15,678,621	1,512,564
Loan servicing fees	14	1,916,017	883,721
Loan interest expense	9	920,543	—
Net realised and unrealised loss on foreign exchange		509,406	475,674
Advisory services fees		264,180	32,812
Company administration and secretarial fees		238,011	161,350
Corporate broker services		203,433	93,789
Audit, audit-related and non-audit related fees		170,973	94,552
Corporate services fees	14	163,322	88,454
Legal fees		123,515	—
Regulatory fees		118,474	24,164
Directors' remuneration and expenses		82,732	98,400
Other operating expenses		140,364	257,029
		20,529,591	3,722,509
Operating profit for the period before finance costs		677,437	8,354,746
Finance costs			
Amortisation of C share financial liability		—	257,041
Amortisation of C share issue costs		—	(2,130,000)
Total comprehensive income for the period		**677,437**	**6,481,787**
Earnings per share			
Basic	11	**0.21p**	3.91p
Diluted	11	**0.21p**	2.18p
Weighted average number of shares outstanding			
Basic	11	328,454,524	165,677,574
Diluted	11	328,454,524	297,665,466

Other comprehensive income

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

The Notes on pages 17 to 30 form part of these condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

	Notes	(Unaudited) 30 September 2018 £	(Audited) 31 March 2018 £
ASSETS			
Cash and cash equivalents	6	27,233,764	33,381,211
Other receivables and prepayments		1,659,676	220,715
Fair value of currency derivatives	7	—	1,327,404
Financial asset at fair value through profit or loss	4,13	25,020,070	—
Loans advanced	3	345,097,454	330,607,047
TOTAL ASSETS		**399,010,964**	**365,536,377**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	330,477,386	303,795,869
Accumulated (losses)/profits		(4,610,788)	4,524,566
TOTAL SHAREHOLDERS' EQUITY		**325,866,598**	**308,320,435**
LIABILITIES			
Loan payable	9	66,000,000	50,000,000
Fair value of currency derivatives	7	135,083	—
Accrued expenses and other liabilities	8	7,009,283	7,215,942
TOTAL LIABILITIES		**73,144,366**	**57,215,942**
TOTAL EQUITY AND LIABILITIES		**399,010,964**	**365,536,377**
NAV per share outstanding		**97.52p**	**100.18p**

The condensed consolidated financial statements on pages 13 to 30 were approved and authorised for issue by the Board of Directors on 18 December 2018 and were signed on its behalf by:

Richard Boléat
Chairman

Jonathan Bridel
Chairman of the Audit Committee

The Notes on pages 17 to 30 form part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2018

	Notes	Share capital £	Accumulated (losses)/ profits £	Total £
Balance at 1 April 2018		303,795,869	4,524,566	308,320,435
Issue of Shares	10	25,151,988	—	25,151,988
Scrip dividends issued	10	1,529,529	—	1,529,529
Dividends declared	12	—	(9,812,791)	(9,812,791)
Total comprehensive income for the period		—	677,437	677,437
Balance at 30 September 2018 (unaudited)		**330,477,386**	**(4,610,788)**	**325,866,598**

Balance at 1 April 2017	161,916,399	2,835,892	164,752,291
Scrip dividends issued	1,260,650	—	1,260,650
Dividends declared	—	(5,391,271)	(5,391,271)
Total comprehensive income for the period	—	6,481,787	6,481,787
Balance at 30 September 2017 (unaudited)	**163,177,049**	**3,926,408**	**167,103,457**

The Notes on pages 17 to 30 form part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED 30 SEPTEMBER 2018

	Notes	(Unaudited) 1 April 2018 to 30 September 2018 £	(Unaudited) 1 April 2017 to 30 September 2017 £
Operating activities			
Total comprehensive income for the period		677,437	8,354,746
Adjustments for:			
Foreign exchange (gain)/loss		(6,914,757)	3,962,565
Interest income on loans advanced		(19,442,762)	(11,972,032)
Impairment of loans	3	15,678,621	1,512,564
Net income on financial asset at fair value through profit or loss	4	(1,736,263)	—
Fair value movement of currency derivatives		1,462,487	(2,119,972)
Operating cash flows before movements in working capital		**(10,275,237)**	**(262,129)**
Loans advanced	3	(145,513,932)	(145,314,103)
Principal and interest collections on loans advanced	3	116,237,758	51,614,111
Principal and interest collections on financial asset at fair value through profit or loss	4	3,895,147	—
(Increase)/decrease in other receivables and prepayments		(1,438,961)	21,764
(Decrease)/increase in accrued expenses and other liabilities		(132,072)	463,214
Net cash used in operating activities		**(36,963,153)**	**(93,477,143)**
Financing activities			
Proceeds from issue of Shares	10	25,151,988	140,171,744
Initial costs of issue of Shares		—	(301,744)
Loans raised	9	16,000,000	—
Dividends paid		(8,900,082)	(4,110,809)
Net cash from financing activities		**32,251,876**	**135,759,191**
Net (decrease)/increase in cash and cash equivalents		**(4,711,277)**	**42,282,048**
Cash and cash equivalents at the beginning of the period		33,381,211	12,331,519
Foreign exchange losses on cash and cash equivalents		(1,436,170)	(482,488)
Cash and cash equivalents at the end of the period		**27,233,764**	**54,131,079**

The Notes on pages 17 to 30 form part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2018

1. GENERAL INFORMATION

The Company is a closed-ended limited liability company registered under The Companies (Guernsey) Law, 2008 (as amended) with registered number 60680. The Company is a registered collective investment scheme in Guernsey and its shares are listed on the premium segment of the London Stock Exchange's Main Market for listed securities. The Company's home member state for the purposes of the EU Transparency Directive is the United Kingdom. As such, the Company is subject to regulation and supervision by the Financial Conduct Authority, being the financial markets supervisor in the United Kingdom. The registered office of the Company is Third Floor, La Plaiderie Chambers, La Plaiderie, St Peter Port, Guernsey GY1 1WG, Channel Islands.

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

The Company publishes monthly net asset value statements on its website at www.fcincomefund.com.

2. BASIS OF PREPARATION

The Company has prepared these Condensed Consolidated Financial Statements on a going concern basis in accordance with the Disclosure Guidance 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 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 year ended 31 March 2018, which have been prepared in accordance with IFRS. The statutory financial statements for the year ended 31 March 2018 were approved by the Board of Directors on 11 July 2018. The opinion of the auditors on those financial statements was unqualified. The accounting policies adopted in this condensed consolidated financial statements are unchanged since 31 March 2018 except as set out below.

This Half-Yearly Report for the period ended 30 September 2018 has been reviewed by the auditors but not audited. PwC have been performing the audit of the Company's year end financial statements for three financial years, starting with the period ended 31 March 2016.

2.1 Adoption of IFRS 9 – "Financial Instruments" (Replacement of IAS 39 – "Financial Instruments: Recognition and Measurement")

The Group will adopt IFRS 9 in its consolidated financial statements for the annual period beginning on 1 April 2018. The accounting policies of the Group have been updated to comply with the requirements of IFRS 9 for the purpose of preparing these condensed consolidated financial statements. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. The key changes from the adoption of IFRS 9 are set out below:

Classification and measurement

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

From 1 April 2018, the Group classifies its financial instruments in the following measurement categories:

- fair value through profit or loss; or
- amortised cost.

The Group holds debt instruments and derivative financial instruments. Debt instruments are those that meet the definition of a financial liability from the issuer's perspective, such as the Group's loans advanced, investment in the EIB structured finance transaction and loans payable. Classification and subsequent measurement of these debt instruments depend on:

- the Group's business model for managing the instrument; and
- cash flow characteristics of the instrument.

Derivative financial instruments relate to the Group's forward foreign exchange transactions that are covered in more detail later in this note.

2. BASIS OF PREPARATION – (CONTINUED)

2.1 Adoption of IFRS 9 – "Financial Instruments" (Replacement of IAS 39 – "Financial Instruments: Recognition and Measurement") - continued

Financial assets

Amortised cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at fair value through profit or loss, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance measured as described below. Interest income from these financial assets is included in the 'interest income on loans advanced'.

The Group's cash and cash equivalents and loans advanced are included in this category.

Fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at fair value through profit or loss, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss.

The Group does not have any financial asset that falls within this category.

Fair value through profit or loss

Assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss within 'net income on financial asset at fair value through profit or loss'. Interest income from these financial assets is included within the same line using the effective interest rate method.

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

Impairment

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

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

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

2. BASIS OF PREPARATION – (CONTINUED)

Impairment – (continued)

The impairment requirements of IFRS 9 apply to the Group's loans and receivables. The Board has built a custom model for estimating impairment losses that complies with the requirements of IFRS 9. The model calculates the ECL on either a 12-month or lifetime basis depending on whether significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. 12-month and lifetime expected credit losses are calculated based on three metrics:

1. Probability of Default (PD) – this is the level of credit risk, estimated for each loan at origination. The lifetime PD is calculated by applying a term structure to the 12 month PD determined at origination. The term structure is derived from historical observed data on each of the loan portfolios.
2. Loss Given Default (LGD) – the expected loss for each loan in the event of default, based on historic recovery experience.
3. Exposure At Default (EAD) – the expected future outstanding balance of the loan in the event of default, taking in to account contractual amortisation and historic prepayments.

These metrics are forecast for each loan for the next 12 months and to maturity, then a 12-month and lifetime expected credit loss can be calculated. These future losses are discounted at the Effective Interest Rate (EIR) individually for each loan.

Credit risk is not monitored on individual loans post origination, instead the collective performance of loans against expectations at origination on a vintage level is monitored. As a result, lifetime expected credit losses are taken as a portion of each cohort anticipated to be in stage 2 and a weighted average ECL is calculated. Lifetime expected credit losses are also taken as an impairment for loans delinquent by more than 30 days.

The Group classifies loans that are 91 or more days late as credit impaired or defaulted for which lifetime expected loss is taken as an impairment. The treatment of defaulted loans is the same as the Group's policy before adoption of IFRS 9 which was disclosed in the last annual financial statements.

Use of forward-looking information

Forecast PD for loans are adjusted to take in to account the current and future macroeconomic environment based on a modelled relationship with key macroeconomic variables. This is forecast for a base case scenario and for multiple alternative scenarios.

Impact of IFRS 9 adoption to the Group's assets, liabilities and financial performance

Taking into account the effect of the reclassification of the Group's investment in structured finance transactions and adoption of the new impairment model, the implementation of IFRS 9 led to a net decrease in profit for the period of £8,275,691. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The table below summarises the effect of adoption of IFRS 9 to the Group's condensed consolidated financial statements:

	Loans advanced	**Financial asset at fair value through profit or loss**	**Total comprehensive income**	**Earnings per share (pence)**
Balance under previous accounting policies	376,151,316	—	8,953,128	2.69
Balances under IFRS 9	345,097,454	25,020,070	677,437	0.21
Effect of adoption of IFRS 9	(31,053,862)	25,020,070	(8,275,691)	(2.48)
The effect of adoption of IFRS 9 is analysed as follows:				
Reclassification of investment in the EIB transaction to financial asset at fair value through profit or loss (net of collections)	(24,025,038)	26,015,102	—	—
Effect of fair value measurement of the EIB transaction	—	(995,032)	(995,032)	(0.30)
Increased impairment allowance on loans (on opening balance)	(3,319,601)	—	(3,319,601)	(0.99)
Increased impairment allowance on loans (charge for the period)	(3,709,223)	—	(3,709,223)	(1.11)
Foreign exchange translation of effect of impairment allowance	(251,835)	—	(251,835)	(0.08)
	(31,305,697)	**25,020,070**	**(8,275,691)**	**(2.48)**

2. BASIS OF PREPARATION – (CONTINUED)

Financial liabilities

In both the current and prior period, the Group's loans payable are classified as subsequently measured at amortised cost. The Group does not hold any financial liabilities that meet the criteria for subsequent measurement at fair value through profit or loss.

Derivative financial instruments

The Group's derivative financial instruments continue to be accounted for at fair value through profit or loss.

Derecognition of financial instruments

Financial assets or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

There may be instances when the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset initially at fair value and recalculates a new effective interest rate for the asset.

Financial liabilities and derivative financial instruments are derecognised when they are extinguished or when the obligation specified in the contract is discharged, cancelled or expired.

3. LOANS ADVANCED

	(Unaudited) 30 September 2018 £	**(Audited) 31 March 2018 £**
Balance at the beginning of the period	330,607,047	155,881,911
Opening balance of loans advanced reclassified to financial asset at fair value through profit or loss (note 4)	(27,178,954)	—
Advanced	145,792,051	286,841,227
Interest income	19,442,762	28,062,416
Principal and interest collections	(116,237,758)	(127,292,985)
Impairment allowance for the period	(15,678,621)	(5,085,333)
Foreign exchange gains/(losses)	8,350,927	(7,800,189)
Balance at the end of the period	**345,097,454**	**330,607,047**

The Group predominantly makes unsecured loans. As at 30 September 2018, the carrying value of loans secured by charges over properties is £3,506,514 (31 March 2018: £5,453,709).

Each loan has a contractual payment date for principal and interest. The Group considers a loan as past due when the borrower's repayment has not been received for at least 30 days from the scheduled payment date. A loan is classified as defaulted when the Group repayment is late by 91 or more days.

3. LOANS ADVANCED – (CONTINUED)

The following table shows the movement in impairment allowance during the period. The Group has not restated the prior year comparative balance. The total impairment allowance charged for the current period to the Condensed Consolidated Statement of Comprehensive Income of £15,678,621 consists of: 1) £3,319,601 allowance that would have been recognised in the prior year had comparative balances been restated; 2) £8,549,797 impairment allowance for the current period calculated based on the accounting policies before adoption of IFRS 9; and 3) £3,709,223 increased impairment charge in the current period due to the effect of adoption of IFRS 9.

	(Unaudited) 30 September 2018 £	**(Audited) 31 March 2018 £**
Impairment allowance at beginning of the period - previously reported	8,398,444	3,313,111
Effect of adoption of IFRS 9 at the beginning of the period	3,319,601	—
Impairment allowance at beginning of the period – IFRS 9	11,718,045	3,313,111
Impairment allowance for the period – measured based on previous accounting policies	8,649,797	5,085,333
Impairment allowance for the period – additional allowance based on IFRS 9 model	3,709,223	—
Impairment allowance at the end of the period	**24,077,065**	**8,398,444**

The table below shows an analysis of the principal and interest of the loans along with the amount recognised as an impairment allowance analysed by the stages described within IFRS 9:

	(Unaudited) 30 September 2018	
	Principal and interest	**Impairment allowance**
Stage 1 - no change in credit risk from inception	336,990,332	7,686,050
Stage 2 – significant increase in credit risk but not yet defaulted	13,674,899	3,137,255
Stage 3 – defaulted	18,509,288	13,253,760
	369,174,519	**24,077,065**

The table below shows an analysis of the principal and interest of the loans along with the amount recognised as an impairment allowance as at 31 March 2018. As noted above, the Group did not restate the prior year amounts to take into account the new impairment model under IFRS 9:

	(Audited) 31 March 2018	
	Principal and interest £	**Impairment allowance £**
Current	326,342,878	—
Past due but not impaired	4,167,513	1,793,111
Defaulted (net of recoveries)	8,495,100	6,605,333
	339,005,491	**8,398,444**

Structured Finance Transaction

In August 2018, the Group entered into a transaction to provide lending to a special purpose vehicle, Queenhithe, which makes loans to UK small businesses. The Group provided an initial funding of approximately £9.2 million through subscription into the Class B note issued by Queenhithe. Queenhithe has been accounted for in these condensed consolidated financial statements as a subsidiary consolidated into the result of the Group. In November 2018, the transaction was updated whereby the Department for Business, Energy and Industrial Strategy (“BEIS”) – the British Business Bank’s (“BBB”) sole shareholder – will provide up to £150 million of funding via a senior floating rate, loan to Queenhithe. It is expected that the senior loan facility will be drawn down over a period of up to 18 months, after which there will be a reinvestment period of a further 18 months before the facility begins to amortise monthly, with principal repayment in relation to the Group’s investment sequential to the senior loan. The facility comes with a 12-year legal maturity.

4. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	(Unaudited) 30 September 2018 £
Balance at the beginning of the period	—
Opening balance of loans advanced reclassified to financial asset at fair value through profit or loss	27,178,954
Interest income	2,731,295
Principal and interest collections	(3,895,147)
Closing balance of loans advanced reclassified to financial asset at fair value through profit or loss	26,015,102
Movement in fair value	(995,032)
Balance at the end of the period	**25,020,070**

The Group's financial asset at fair value through profit or loss relates to the investment in the EIB transaction. This was previously classified as loans advanced measured at amortised cost. As disclosed in note 2, the investment in the EIB transaction has been reclassified to financial asset at fair value through profit or loss following adoption of IFRS 9.

5. SEGMENTAL REPORTING

The Group operates in the UK, US, Germany, Spain and the Netherlands. For financial reporting purposes, Germany, Spain and the Netherlands combine to make up the Continental Europe operating segment. The Group ceased originating loans in Spain from January 2017.

The measurement basis used for evaluating the performance of each segment is consistent with the policies used for the Group as a whole. Assets, liabilities, profits and losses for each reportable segment are recognised and measured using the same accounting policies as the Group.

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

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

Segment performance for the period ended 30 September 2018 – (unaudited)

With IFRS 9 impact

	UK £	**US £**	**CE £**	**Other income and expenses £**	**Consolidated £**
Total revenue	12,172,140	7,321,692	1,685,193	28,003	21,207,028
Impairment of loans	(7,497,308)	(6,541,020)	(1,640,293)	—	(15,678,621)
Profit/(loss) before finance costs	1,127,557	169,427	(110,141)	(509,406)	677,437

	UK £	**US £**	**CE £**	**Other assets and liabilities £**	**Consolidated £**
Assets	243,498,565	109,893,989	43,958,734	1,659,676	399,010,964
Liabilities	(72,325,790)	(88,903)	(33,699)	(695,974)	(73,144,366)

5. SEGMENTAL REPORTING – (CONTINUED)

As disclosed in note 2, the Group adopted IFRS 9 during the period. The most significant impact of IFRS 9 was the recognition of impairment losses on loans and receivables as soon as they are issued. This means that increased levels of lending will generally increase the amount of impairment loss recognised compared to the accounting policies before adoption of IFRS 9.

During the period, and as announced in July 2018, the Group increased its lending to CE which directly increased the amount of impairment loss provision for CE. This is purely an accounting adjustment. Comparative segmental information without IFRS 9 impact has been presented below to aid in evaluating the financial performance of each segment.

Without IFRS 9 impact

	UK	US	CE	Other income and expenses	Consolidated
	£	£	£	£	£
Total revenue	13,167,172	7,321,692	1,685,193	28,003	21,207,028
Impairment of loans	(4,102,239)	(3,891,734)	(403,989)	—	(8,397,962)
Profit/(loss) before finance costs	5,517,658	2,818,713	1,126,163	(509,406)	8,953,128

	UK	US	CE	Other assets and liabilities	Consolidated
	£	£	£	£	£
Assets	247,888,666	112,543,275	45,195,038	1,659,676	407,286,655
Liabilities	(72,325,790)	(88,903)	(33,699)	(695,974)	(73,144,366)

Segment performance for the period ended 30 September 2017- (unaudited)

	UK	US	CE	Other income and expenses	Consolidated
	£	£	£	£	£
Total revenue	8,039,266	3,462,060	470,706	105,223	12,077,255
Profit/(loss) before finance costs	6,487,671	2,195,941	40,585	(369,451)	8,354,746

Segment assets and liabilities as at 31 March 2018 – (audited)

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

The Company is domiciled in Guernsey whilst Basinghall, Tallis, Lambeth and Queenhithe are domiciled in Ireland. The Group earned £2,731,295 (30 September 2017: £2,541,575) income as a result of the EIB transaction during the period. As disclosed in note 4, the adoption of IFRS 9 during the period resulted in the recognition of a fair value loss amounting to £995,032 which was offset against the interest income within the Condensed Consolidated Statement of Comprehensive Income. All other income was earned from SME borrowers in the UK, CE and US.

6. CASH AND CASH EQUIVALENTS

	(Unaudited)	(Audited)
	£	£
Cash at bank	12,880,718	10,151,333
Cash equivalents	14,353,046	23,229,878
Balance at the end of the period	**27,233,764**	**33,381,211**

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

7. DERIVATIVES

Foreign exchange swaps are held to hedge the currency exposure generated by US dollar assets and Euro assets held by the Group. The hedges have been put in place taking into account the fact that derivative positions, such as simple foreign exchange swaps, could cause the Group to require cash to fund margin calls on those positions. Foreign exchange derivatives are entered into with Royal Bank of Scotland International ("RBSI"), Goldman Sachs International ("GS"), and Northern Trust ("NT"). The Group negotiated the terms of the contracts with RBSI and NT such that no collateral is required on the initial transaction and in instances of temporary negative fair value positions.

Fair value of currency derivatives

	(Unaudited) Fair value 30 September 2018 £	**(Audited) Fair value 31 March 2018 £**
Valuation of currency derivatives	(135,083)	1,327,404
	(135,083)	**1,327,404**

	(Unaudited) Fair value 30 September 2018 £	**(Audited) Fair value 31 March 2018 £**
Euro	(323,402)	190,286
USD	188,319	1,137,118
Total	**(135,083)**	**1,327,404**

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	(Unaudited) 30 September 2018 £	**(Audited) 31 March 2018 £**
Dividends payable	4,384,014	5,000,864
Payable for loans committed but not yet funded	1,747,359	1,469,240
Service fees payable	317,019	284,141
Audit fees payable	202,436	169,340
Legal fees payable	46,887	173,288
Administration fees payable	—	37,894
Loan interest payable (see note 9)	90,215	65,807
Taxation payable	—	500
Other liabilities	221,353	14,868
	7,009,283	**7,215,942**

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

9. LOAN PAYABLE

	(Unaudited) 30 September 2018 £	(Audited) 31 March 2018 £
Balance at the beginning of the period	50,000,000	—
Drawdown	16,000,000	50,000,000
Balance at the end of the period	**66,000,000**	**50,000,000**

In January 2018, the Group entered into the Citibank transaction to provide lending to a special purpose vehicle, Lambeth, which makes loans to UK small businesses. Under the terms of the agreement, Citibank provided £50 million into the transaction, by entering into a senior floating rate loan.

In July 2018, the Citibank transaction was amended whereby the senior loan from Citibank was increased to £66 million with a corresponding net increase to the Group's lending to Lambeth.

The Group, with the assistance of the Administrator and Funding Circle, monitors certain covenants under the terms of the agreement with Citibank. The most material covenants relate to the default levels on the portfolio and allocation limits on credit risk bands of the loans. There has been no breach of such covenants during the period.

The loan from Citibank bears a floating interest rate plus a margin. Total interest expense on this loan during the period was £920,543 with £90,215 outstanding as at 30 September 2018. The loan has a termination date of 107 months from the closing date on 17 January 2018.

10. SHARE CAPITAL

Issued and fully paid	**Number of shares**	**Shares issued amount**	**Issue costs**	**Net Shares amount**
Ordinary shares		**£**	**£**	**£**
At 31 March 2018 – (audited)	307,745,501	309,215,940	(5,420,071)	303,795,869
Issue of shares – scrip dividends	1,473,534	1,529,529	—	1,529,529
Issue of shares – treasury (see below)	24,928,394	25,151,988	—	25,151,988
At 30 September 2018 - (unaudited)	**334,147,429**	**335,897,457**	**(5,420,071)**	**330,477,386**

Issued and fully paid	**Number of shares**	**Shares issued amount**	**Issue costs**	**Net Shares amount**
Ordinary shares		**£**	**£**	**£**
At 31 March 2017 – (audited)	164,970,063	165,206,470	(3,290,071)	161,916,399
Issue of shares – scrip dividends	1,219,235	1,260,650	—	1,260,650
At 30 September 2017 - (unaudited)	**166,189,298**	**166,467,120**	**(3,290,071)**	**163,177,049**

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

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

Rights attaching to the Ordinary share class

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2018

11. EARNINGS PER SHARE ("EPS")

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

	(Unaudited) 30 September 2018 £	(Unaudited) 30 September 2017 £
Profit for the purposes of basic and diluted EPS	677,437	6,481,787
Weighted average number of shares for the purposes of EPS:		
Basic	328,454,524	165,677,574
Diluted	328,454,524	297,665,466
Basic EPS	**0.21p**	**3.91p**
Diluted EPS	**0.21p**	**2.18p**

12. DIVIDENDS

The following unaudited table shows a summary of dividends declared during the period in relation to Ordinary shares.

	Date declared	Ex-dividend date	Per share Pence	Total £	Number of shares issued as scrip dividend
Interim dividend	13 June 2018	21 June 2018	1.625	5,428,777	69,823
Interim dividend	14 September 2018	27 September 2018	1.312	4,384,014	120,417
Total				**9,812,791**	**190,240**

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

13. FINANCIAL RISK AND FAIR VALUE MEASUREMENT

Financial risk management and financial instruments

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual report and financial statements as at 31 March 2018.

There have been no changes in the risk management in any risk management policies since the year end.

Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities. There has been an increase during the period on the loan payable amount but the maturity profile of the total loan remains the same therefore no additional disclosures have been presented within these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 SEPTEMBER 2018

13. FAIR VALUE MEASUREMENTS – (CONTINUED)

Fair value measurement

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 2018 are its currency derivatives and the investment in the EIB transaction.

The fair value of the currency derivatives held by RBSI was estimated by RBSI based on the GBP-USD forward exchange rate, the GBP-EUR forward exchange rate, the GBP-USD spot rate and the GBP-EUR spot rate as at 30 September 2018. The fair value of the currency derivatives held by Northern Trust was estimated by Northern Trust based on the GBP-EUR forward exchange rate and the GBP-EUR spot rate as at 30 September 2018.

The fair value of the EIB transaction has been estimated by discounting future cash flows from the investment using a discount rate of 16.88% (31 March 2018: 16.88%) which the Directors believe to be an appropriate reflection of market interest rate for the type of loans at the reporting date. The estimated fair value and carrying amount of the EIB transaction as at 30 September 2018 was £25,020,070 (31 March 2018: £28,155,693 and £27,178,954 respectively).

The Board of Directors believe that the fair value of the currency derivatives falls within Level 2 in the fair value hierarchy described above. The fair value of the EIB transaction falls within Level 3 in the fair value hierarchy due to the unobservable inputs used in the valuation which include discount rate and timing and amounts of cash flows.

The following table presents the fair value of the Group's assets and liabilities not measured at fair value as at 30 September 2018 but for which fair value is disclosed:

	30 September 2018 – (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	£	**£**	**£**	**£**
Loans advanced	—	—	345,097,454	345,097,454
Cash and cash equivalents	27,233,764	—	—	27,233,764
Other receivables and prepayments	—	1,659,676	—	1,659,676
Loans payable	—	—	(66,000,000)	(66,000,000)
Accrued expenses and other liabilities	—	(7,009,283)	—	(7,009,283)
	27,233,764	**(5,349,607)**	**279,097,454**	**300,981,611**

13. FAIR VALUE MEASUREMENTS – (CONTINUED)

Fair value measurement – (continued)

	31 March 2018 – (Audited)			
	Level 1	Level 2	Level 3	Total
	£	£	£	£
Loans advanced	—	—	330,607,047	330,607,047
Cash and cash	33,381,211	—	—	33,381,211
Other receivables and	—	220,715	—	220,715
Loans payable	—	—	(50,000,000)	(50,000,000)
Accrued expenses and Liabilities	—	(7,215,942)	—	(7,215,942)
	33,381,211	**(6,995,227)**	**280,607,047**	**306,993,031**

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

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 Condensed Consolidated Statement of Financial Position due to their short term nature.

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

14. RELATED PARTY DISCLOSURE

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

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

Sachin Patel has waived his fees as a director of the Company.

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

The Directors held the following number of shares as at 30 September 2018 and 31 March 2018:

	(Unaudited) As at 30 September 2018		(Audited) As at 31 March 2018	
	Number of shares	% of total shares in issue	Number of shares	% of total shares in issue
Richard Boléat	5,000	0.0015	5,000	0.0024
Jonathan Bridel	5,000	0.0015	5,000	0.0024
Richard Burwood	5,000	0.0015	5,000	0.0024
Frederic Hervouet	107,000	0.0320	107,000	0.0522
Sachin Patel (appointed on 18 May 2017)	—	—	—	—
	122,000	**0.0365**	**122,000**	**0.0594**

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

14. RELATED PARTY DISCLOSURE – (CONTINUED)

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

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

	Transaction	(Unaudited) Expense during the period ended 30 September 2018 £	(Unaudited) Payable as at 30 September 2018 £	(Unaudited) Expense during the period ended 30 September 2017 £	(Unaudited) Payable as at 30 September 2017 £
Funding Circle UK	Servicing fee	1,149,726	167,351	555,261	115,135
Funding Circle UK	Corporate services fee	163,322	27,066	88,454	13,874
Funding Circle UK	Reimbursement of expenses	23,903	8,786	158,878	37,645
Funding Circle US	Servicing fee	611,251	88,903	280,505	53,747
Funding Circle CE	Servicing fee	155,040	33,699	47,954	9,737

15. INVESTMENT IN SUBSIDIARIES

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

	Country of incorporation	Principal activity	Transactions	(Unaudited) Outstanding amount as at 30 September 2018 £	(Audited) Outstanding amount as at 31 March 2018 £
Basinghall Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in the UK	Subscription of notes issued	141,188,860	128,438,860
Tallis Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in Germany, the Netherlands and Spain*	Subscription of notes issued	44,234,555	20,674,883
Lambeth Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in UK	Subscription of notes issued	69,073,022	53,086,822
Queenhithe Lending Designated Activity Company	Ireland	Investing in Credit Assets originated in UK	Subscription of notes issued (through Basinghall)	13,982,315	n/a
				268,478,752	**202,200,565**

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

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16. SUBSEQUENT EVENTS

On 14 September 2018, the Board declared a dividend of 1.312 pence per ordinary share payable on 31 October 2018 to shareholders on the register as at the close of business on 28 September 2018 and the corresponding ex-dividend date was 27 September 2018. On 26 October 2018, 120,417 ordinary shares were applied to be listed on the premium segment of the Official List of the UK Listing Authority and to be admitted to trading on the main market of the London Stock Exchange that relate to dividends paid in shares via scrip dividend.

In November 2018, the transaction was updated whereby the Department for Business, Energy and Industrial Strategy ("BEIS") – the British Business Bank's ("BBB") sole shareholder – will provide up to £150 million of funding via a senior floating rate loan to Queenhithe. It is expected that the senior loan facility will be drawn down over a period of up to 18 months, after which there will be a reinvestment period of a further 18 months before the facility begins to amortise monthly, with principal repayment in relation to the Group's investment sequential to the senior loan. The facility comes with a 12-year legal maturity.

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 and European Opportunities Limited, both of which are listed on the London Stock Exchange, and Yatra Capital Limited, listed on Euronext, along with a number of other substantial collective investment and investment management entities established in Jersey, the Cayman Islands and Luxembourg. He is regulated in his personal capacity by the Jersey Financial Services Commission and is a member of AIMA.

Jonathan Bridel

Audit Committee Chairman, Non-executive Director

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

Richard Burwood

Management Engagement Committee Chairman, Non-executive Director

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

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

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

Frederic Hervouet

Risk Committee Chairman, Non-executive Director

Mr. Hervouet is based in Guernsey and acts in a non-executive directorship capacity for a number of hedge funds, private equity & credit funds (including structured debt, distressed debt and asset backed securities), for both listed (SFM on LSE, Euronext) and unlisted vehicles. Mr Hervouet is a non-executive director of Tetragon Financial Group which is listed on Euronext and Chenavari Toro Income Fund Limited which is listed on the SFM on LSE.

Mr. Hervouet was Managing Director and Head of Commodity Derivatives Asia for BNP Paribas including Trading, Structuring and Sales. Mr. Hervouet has worked under different regulated financial markets based in Singapore, Switzerland, United Kingdom and France. Most recently, Mr. Hervouet was a member of BNP Paribas Commodity Group Executive Committee and BNP Paribas Credit Executive Committees on Structured Finance projects (structured debt and trade finance).

BOARD OF DIRECTORS

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

Sachin Patel

Non-executive Director

Sachin Patel was appointed as Director on 18 May 2017, replacing Samir Desai who resigned on the same date. Sachin Patel is the Chief Capital Officer at Funding Circle, leads the Global Capital Markets group and is responsible for investor strategy. Previously, Sachin was Vice President in the cross-asset structured products and solutions businesses at Barclays Capital and, prior to this, at J.P. Morgan, advising a wide variety of investors including insurance companies, pension funds, discretionary asset managers and private banks.

By virtue of Sachin's role at Funding Circle Limited, Sachin is not an independent Director. Notwithstanding this, Sachin has undertaken in his service contract with the Company to communicate to the Board any actual or potential conflict of interest arising out of his position as a Director and the other Directors have satisfied themselves that procedures are in place to address potential conflicts of interest.

Sachin is not entitled to any fee for the services provided and to be provided in relation to his directorship, although the Company shall, during the course of his appointment, reimburse all properly incurred out-of-pocket expenses incurred in the execution of his duties as a Director.

AGENTS AND ADVISORS

Funding Circle SME Income Fund Limited

Company registration number: 60680
(Guernsey, Channel Islands)

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Company Secretary and Administrator

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Portfolio Administrator

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Channel Islands

GLOSSARY

Definitions and explanations of methodologies used are shown below. The Company's prospectus contains a more comprehensive list of defined terms.

"Administrator"	Sanne Group (Guernsey) Limited
"Affiliates"	with respect to any specified person means: (a) any person that directly or indirectly controls, is directly or indirectly controlled by or is directly or indirectly under common control with such specified person; (b) any person that serves as a director or officer (or in any similar capacity) of such specified person; (c) any person with respect to which such specified person serves as a general partner or trustee (or in any similar capacity). For the purposes of this definition, ''control'' (including ''controlling'', ''controlled by'' and ''under common control with'') means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.
"AGM"	Annual General Meeting
"AIC Code"	the AIC Code of Corporate Governance
"AIC"	the Association of Investment Companies, of which the Company is a member
AIFM"	Alternative Investment Fund Manager, appointed in accordance with the AIFMD
"AIFMD"	the Alternative Investment Fund Managers Directive
"Available Cash"	cash determined by the Board as being available for investment by the Company in accordance with the Investment Objective, and, in respect of Basinghall and Tallis cash determined by the Board of each of Basinghall and Tallis Board (having regard to the terms of the Origination Agreement and the Note) to be available for investment by Basinghall and Tallis and excluding (without limitation) amounts held as reserves or pending distribution.
"CE"	Continental Europe
"Company Secretary"	Sanne Group (Guernsey) Limited
"Credit Assets"	loans or debt or credit instruments of any type originated through any of the Platforms
"Funding Circle"	Funding Circle UK, Funding Circle US, Funding Circle CE or either of their respective Affiliates (as defined in the Prospectus of the Company), or any or all of them as the context may require.
"Funding Circle CE"	Funding Circle CE GmbH and Funding Circle Deutschland GmbH
"Funding Circle Netherlands"	Funding Circle Nederlands B.V.
"Funding Circle Spain" "Funding Circle UK"	Funding Circle Espaňa SLU Funding Circle Limited
"Funding Circle US"	FC Platform, LLC
"NAV Total Return"	A measure of performance showing how the NAV per Ordinary share has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. It assumes that dividends paid to shareholders are reinvested at NAV at the time the shares are quoted ex-dividend. Opening NAV in November 2015 was 98.00p, after initial costs.

GLOSSARY

"Near Affiliates"	the relevant Irish subsidiary of the Company and any other SPV or entity which, not being an Affiliate of the Company, has been or will be formed in connection with the Company's direct or indirect investment in Credit Assets and which (save in respect of any nominal amounts of equity capital) is or will be financed solely by the Company or any Affiliate of the Company.
"Note" or "Profit Participating Note"	notes issued by Basinghall Lending Designated Activity Company, Tallis Lending Designated Activity Company, Queenhithe Lending Designated Activity Company and Lambeth Lending Designated Activity Company under their separate note programmes.
"Origination Agreements"	the German Origination Agreement, the Dutch Origination Agreement, the Spanish Origination Agreement, the UK Origination Agreement, the US Origination Agreement, and the CE Origination Agreements.
"Platforms"	the lending platforms operated in the UK, US and CE by Funding Circle, together with any similar or equivalent platform established or operated by Funding Circle in any jurisdiction.
"Portfolio Limits"	One or more concentration limits, expressed as a maximum percentage of the Company's gross asset value which may be invested in Credit Assets having the relevant feature, in respect of any of the metrics comprising the portfolio data.
"Prospectus"	The prospectus issued on the initial IPO on 30 November 2015 and subsequently revised in February 2017.
"PwC"	PricewaterhouseCoopers CI LLP, PricewaterhouseCoopers Ireland and PricewaterhouseCoopers UK LLP
"PwC CI"	PricewaterhouseCoopers CI LLP
"PwC Ireland"	PricewaterhouseCoopers Ireland
"PwC UK"	PricewaterhouseCoopers UK
"Qualifying Assets"	are those Credit Assets which the Company has Available Cash to Purchase and which would not breach the Company's Investment Policy or any Portfolio Limits were they to be randomly allocated and purchased by the Company.
"Share Price Total Return"	A measure of performance showing how the share price has performed over a period of time, taking into account both capital returns and dividends paid to shareholders. It assumes that dividends paid to shareholders are reinvested in the shares at the time the shares are quoted ex-dividend.

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