Funding Circle

Funding Circle Holdings plc
Half Year 2020 Results

Embargoed until 7.00am, 24 September 2020

THIS ANNOUNCEMENT INCLUDES INSIDE INFORMATION AS DEFINED IN ARTICLE 7 OF THE MARKET ABUSE REGULATION NO. 596/2014

Funding Circle Holdings plc ("Funding Circle"), today announces results for the six months ended 30 June 2020.

Samir Desai CBE, CEO and Founder, said: *"We started Funding Circle after the financial crisis to help small businesses access funding, and we are proud that since becoming accredited to SME government guarantee programmes in the UK and US, we have approved more than £2 billion of loans, and are the 5th largest CBILS lender with c.20% market share of loans approved.*

"In H1, we grew total income 24% to £101.2m and improved free cash flow to negative £9.6m. AEBITDA was down, primarily due to the impact of Covid-19 on the investments we held for sale. We remain focused on profitable growth and are reinstating our target of close to AEBITDA break-even for the business in the second half of 2020."

"We believe that Covid-19 has led to an acceleration in the adoption of online small business lending and small businesses are increasingly drawn to the unique Funding Circle model, which provides access to finance in a fast and affordable way with excellent customer service. Our Instant Decision lending technology launched this year is already transforming the SME borrowing experience with average loan applications being completed in 6 minutes, and decisions in 9 seconds.

"Our advanced data driven credit assessment and the actions we have taken are protecting investor returns - after applying our central Covid-19 stress scenario, we expect all cohorts in the UK to deliver positive annualised returns to investors."

Financial Summary:

- Total Income of £101.2m (H1 2019: £81.7m) up 24% supported by investment income.
- Adjusted EBITDA[1] of negative £84.1m (H1 2019: negative £19.7m), primarily due to the impact of Covid-19 on the investments we held for sale; includes negative £59.7m AEBITDA from investment products.
- Free cash flow improves to negative £9.6m (H1 2019 negative: £28.1m).
- Operating loss of £113.5m (H1 2019: negative £31.3m) affected by investment AEBITDA[2], an exceptional non-cash write-down of £12.0m of US goodwill related to the US restructure, and £4.9m related to the restructure of the Developing Markets business, both of which were previously announced.
- Net assets of £216.9m, (2019: £319.0m), including a mix of cash and investments.
- Loss per share of 33.0 pence (H1 2019 loss: 8.9 pence).

Operating and Strategic Summary:

- **Leading SME loans platform:**
    - £3.7bn loans under management (2019: £3.5bn), representing year-on-year growth of 5%.
    - Originations of £1.1bn (H1 2019: £1.2bn), down 7% year-on-year as a result of lower levels of originations in March and April as the business adapted to the Covid-19 crisis and waited for accreditation to SME government guarantee programmes in the UK and US.

[1] Adjusted EBITDA represents EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) excluding share-based payments, exceptional items and foreign exchange gains or losses

[2] Investment AEBITDA refers to net investment income (being investment income, investment expense and fair value adjustments) as previously reported

- **Successfully rolled out SME government guarantee programmes in UK and US**:
    - Accredited for the Coronavirus Business Interruption Loan Scheme (CBILS) in the UK and the Paycheck Protection Program (PPP) in the US in April.
    - Since being accredited, Funding Circle has become the 5th largest CBILS lender in the UK with a market share of c.20% of loans approved. We have approved c.£1.2bn and originated c.£815m[3] of CBILS loans, with June to August lending volumes up more than 30% year-on-year.
    - In the US, we were approved to offer PPP loans in April. Since launching, we have approved c.$1bn and originated c.$500m[3] of PPP loans.
    - Additionally, we have closed more than £1.25bn in funding agreements with multiple institutional investors, including banks, asset managers and insurance companies to meet SME demand in both the UK and US.
- **Launched Instant Decision lending technology:**
    - Instant Decision lending is already transforming the SME borrowing experience and represents c.40% of CBILS applications.
    - 6 min average application time with decision in 9 seconds.
- **Effective management of loanbook during extreme period of stress:**
    - Following an initial spike, the number of borrowers missing payments for the first time has fallen to below pre-Covid-19 levels and more than 90% of UK borrowers are making payments.
- **Investor returns resilient after applying Covid-19 credit stress scenarios:**
    - All UK cohorts expected to deliver positive annualised returns.
    - All US cohorts (except 2019) expected to deliver positive annualised returns.

Covid-19 and Our Response:

The actions taken at the start of Covid-19 to protect investor returns and support businesses during the crisis are working. At the start of lockdown, we saw an initial spike in the number of borrowers who missed a payment for the first time. This has now fallen to below pre-Covid-19 levels with more than 90% of UK borrowers making payments. Investor returns have also remained resilient during Covid-19 and we expect all cohorts in the UK to deliver positive annualised returns and all cohorts in the US to deliver positive annualised returns, except the 2019 vintage.

Early Covid-19 trends suggest a permanent change in the SME borrowing market that we believe will benefit Funding Circle in the medium to long term. Government support has demonstrated the strategic importance of small businesses to economic growth. A higher proportion of SMEs are now accessing finance as a result and we believe this is likely to continue in the future. For those small businesses looking for finance, there has been a significant acceleration in online adoption with searches related to business finance terms increasing 2x immediately following the introduction of a national lockdown in the UK. Finally, long term low interest rates are likely to continue to attract strong demand from institutional investors to fund SME loans.

Outlook:

The economic environment remains very uncertain. H2 expectations are predicated on there being no further prolonged national lockdowns across our geographies and includes the expectation of ongoing government support for SMEs in the UK.

We are reinstating previous guidance of close to AEBITDA break-even in H2.

We remain committed to delivering profitable growth and generating long-term value for shareholders.

[3] UK and US originations up to 20th September

Analyst presentation:

A presentation for analysts will be held today via webcast at 9:30am. Please contact ir@fundingcircle.com if you wish to attend. An on-demand replay will also be available on the Funding Circle website following the presentation.

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About Funding Circle:

Funding Circle (LSE: FCH) is a small and medium enterprise ("SME") loans platform. Since launching in 2010, investors and lenders across Funding Circle's geographies - including retail investors, banks, specialty finance companies asset management companies, insurance companies, government-backed entities and funds - have lent approximately £10 billion to 90,000 businesses globally.

Forward looking statements and other important information

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

The information contained in this document is provided as of the dates shown. Nothing in this document should be construed as legal, tax, investment, financial, or accounting advice, or solicitation for or an offer to invest in Funding Circle.

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Business Review

Overview

2020 started strongly for the business with originations at the high end of expectations as we saw strong demand for SME loans in the UK, following Brexit and the General Election in 2019, and in the US where originations in January and February were the highest levels for 12 months.

Originations were impacted significantly during March and April as we waited for approval to SME government guarantee programmes in the UK and the US. Originations rebounded strongly in May and June, following accreditation to these programmes, and reached record levels. Overall, loans under management were £3,722m as at 30 June, in line with the year end 2019. Overall originations declined by 7% to £1,112m, driven by the lower levels of originations in March and April.

			Loans under Management (as at)			**Originations (period ended)**
	30 June 2020 £m	31 December 2019 £m	Change	**30 June 2020 £m**	30 June 2019 £m	Change
United Kingdom	**2,566**	2,583	(1%)	662	798	(17%)
United States	**904**	882	2%	410	311	32%
Developing Markets	**252**	266	(5%)	40	83	(52%)
Total	**3,722**	3,731	-	1,112	1,192	(7%)

For the six month period, this resulted in Group total income of £101.2m (H1 2019: £81.7m) up 24%. Total income excludes the volatility driven by the Fair Value movements on loans held on balance sheet.

Adjusted EBITDA loss of £84.1m (H1 2019: loss £19.7m) comprised of negative £24.4m of operating AEBITDA[4] and negative £59.7m of investment AEBITDA[4].

Following the non-cash fair value movement on the Group's financial assets, the Group's loss before taxation was £115.1m (H1 2019: £30.8m). Before exceptional costs of £16.9m in 2020 for the restructuring of the European business (£4.9m) and the US goodwill write-off (£12.0m), the loss before tax was £98.2m (H1 2019: £30.8m).

At the end of 2019, the Group made certain organisational changes with greater ownership of costs within geographies from 2020. Accordingly, the central costs of product development and corporate costs from 2020 have been allocated to each of the segments. The 2019 segmental reporting has been restated for comparability.

[4] Investment AEBITDA refers to net investment income (being investment income, investment expense and fair value adjustments) as previously reported and operating AEBITDA represents AEBITDA excluding investment AEBITDA

Geographic highlights

United Kingdom
The UK continues to represent Funding Circle's largest and most mature business unit. As at the end of H1, loans under management remained flat on 31 December 2019, due to a combination of lower originations and higher levels of repayments and prepayments, in part reflecting the fact that borrowers may use the Government's CBILS and Bounce Back loan scheme to help refinance their existing loans. Originations totalled £662m, down 17% on H1 2019 reflecting the two month period where limited loans were originated.

The Government introduced the Coronavirus Business Interruption Loan Scheme (CBILS), an 80% government guarantee to UK small businesses, in March. Following accreditation to CBILS, we saw high demand from SMEs with June to August lending volumes up more than 30% year-on-year. As at 20 September, we had approved c.£1.2bn of loans and originated c.£815m. Following accreditation to CBILS we also paused all non-CBILS lending from retail and institutional investors to concentrate on supporting the Government's SME guarantee programme. CBILS loans have similar economics to our core lending product, but slightly lower transaction fee and slightly higher servicing fees.

Total income for the UK was £59.3m (H1 2019: £53.0m) benefitting from six months of investment income from the new ABS products which had only just launched in June 2019.

In March, we launched the first phase of our Instant Decision lending platform in the UK. At the end of June, c.40% of CBILS applications were serviced by new Instant Decision lending technology and we are ahead of our target for the end of the year for 50% of all loan applications to be automated. The average time taken to complete an application has been 6 minutes with decision time in 9 seconds.

United States
Similar to the UK, the US business had a strong beginning to the year with January and February our highest months for originations for 12 months.

The US Government introduced its Paycheck Protection Program ("PPP") through the Small Business Administration ("SBA") in April. This scheme has similar characteristics to the UK furlough scheme, where the SBA will forgive the loans if the funds are used to pay eligible expenses such as payroll costs of employees. The US business was approved by the SBA to originate PPP loans on 14 April.

Since then, the US business has approved over $1bn of PPP loans and originated c.$500m. The US funds these loans under two models; the core model and a referral model whereby it refers borrowers that meet their eligibility criteria to other institutions. PPP loans are 100% guaranteed and the average transaction fee across the two models was c.2.5%.

Loans under management increased by 2% to £904m with overall originations up 32% at £410m, however the referral fees are lower than under the funding model.

Total income for the US was £38.0m (H1 2019: £22.0m), again benefitting significantly from a full six months of investment income from the new investment products.

Developing Markets
In March, the Group announced the decision to restructure the Developing Markets business to a referral only model where loans would be referred to lenders rather than originating loans for institutional and retail investors. As part of the restructure, we centralised operations in London. Due to the impact of Covid-19, the company decided not to scale up the new model and headcount numbers in London, which resulted in a limited number of loans originated in Germany in H1, and in the Netherlands we are not currently originating loans.

Statement of Comprehensive Income

	Six months to 30 June 2020			Six months to 30 June 2019
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Total £m
Transaction fees	47.8	-	47.8	62.5
Servicing fees	13.8	-	13.8	15.2
Other fees	3.2	-	3.2	2.7
Fee income	**64.8**	**-**	**64.8**	**80.4**
Investment income	49.8	-	49.8	2.2
Investment expense	(13.4)	-	(13.4)	(0.9)
Total income	**101.2**	**-**	**101.2**	**81.7**
Fair value (losses)/gains	(96.1)	-	(96.1)	(0.3)
Net income	**5.1**	**-**	**5.1**	**81.4**
Operating expenses				
People costs	(44.5)	(3.8)	(48.3)	(45.5)
Marketing costs	(22.4)	-	(22.4)	(35.2)
Depreciation, amortisation and impairment	(8.2)	(12.4)	(20.6)	(7.1)
Loan repurchase charge	(5.5)	-	(5.5)	(4.2)
Other costs	(21.1)	(0.7)	(21.8)	(20.7)
	(101.7)	**(16.9)**	**(118.6)**	**(112.7)**
Operating loss	**(96.6)**	**(16.9)**	**(113.5)**	**(31.3)**

Total income

For the six month period, the Group delivered total income of £101.2m (H1 2019: £81.7m) up 24%.

Fee income defined as transaction, servicing and other fees, declined 19% reflecting lower levels of origination in March and April prior to Funding Circle being accredited to join CBILS in the UK and approved to originate PPP loans in the US, and lower yields as a result of accessing these schemes. In the UK, yields were marginally lower than in the prior period on the CBILS loans; and in the US, yields across the funded and referred PPP loans were c.2.5%.

Investment income represents the interest income on loans invested within Funding Circle's investment vehicles. This is significantly higher than the six month period to 30 June 2019 as these programmes had only recently commenced by June 2019.

Net income, defined as total income after fair value loss, was £5.1m (H1 2019: £81.4m). The Group considers the large majority of this fair value movement is attributable to Covid-19. The fair value movement in the six months to 30 June 2019 was minimal as the Group had only just begun its ABS programmes which brought loans onto its balance sheet.

Operating expenses

Total operating expenses

Operating loss of £113.5m (H1 2019: £31.3m) was affected by investment AEBITDA, an exceptional non-cash write-down of £12.0m for US goodwill and £4.9m for the previously announced restructuring of the Developing Markets business. Excluding these costs, total expenses were £101.7m, 10% down on prior year principally driven by reducing discretional marketing spend following the Covid-19 outbreak. Operating expenses are expected to fall a further c.15% in H2.

People costs (including contractors) which represent the Group's largest ongoing operating cost increased during the period by £2.4m largely reflecting the restructuring costs of £3.8m for the Developing Markets business.

Excluding these items, people costs were down £1.4m driven by inflationary pay rises in March being more than offset by headcount control, recruitment freezes and redeployment of staff.

Following the headcount reduction in the Developing Markets through the period, headcount is now 19% lower than June 2019 and at its lowest level since June 2018.

	Six months to 30 June 2020 £m	Six months to 30 June 2019 £m	Change %
People costs	**53.7**	51.3	5%
Less capitalised development spend (CDS)	(5.4)	(5.8)	(7%)
People costs net of CDS	**48.3**	45.5	6%
Average headcount (incl. contractors)	1,076	1,140	(6%)
Period end headcount (incl. contractors)	1,004	1,227	(18%)

Marketing costs were reduced from £35.2m to £22.4m. This was particularly in the online, direct, brand and TV channels where reductions totalled £11.2m as discretionary spend was scaled back.

Depreciation, amortisation and impairment costs of £20.6m (H1 2019: £7.1m) include an impairment of £0.4m for the Developing Markets premises and an impairment of £12.0m for US goodwill. Excluding these, the charge is principally in relation to the amortisation of the Group's technology platform and the deprecation of leasehold improvements and office equipment.

Loan repurchase charges relate to the buyback of certain defaulted loans from certain institutional investors under a loan purchase commitment in return for a fee premium. The charge increased during the period as a result of Covid-19. Under IFRS 9 this commitment is accounted for under the expected credit loss model.

Other costs principally include cost of sales, data and technology costs and property costs. These remained relatively flat on 2019.

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Segmental reporting

The Group also reviews the results of the Group using adjusted EBITDA as an alternative performance measure. The table below sets out a reconciliation between these measures and the statutory operating loss:

	30 June 2020				30 June 2019			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	**59.3**	**38.0**	**3.9**	**101.2**	53.0	22.2	6.5	81.7
Fair value (losses)/gains	(34.8)	(61.3)	-	(96.1)	-	(0.3)	-	(0.3)
Net income	**24.5**	**(23.3)**	**3.9**	**5.1**	53.0	21.9	6.5	81.4

Segment profit	**30 June 2020**				30 June 2019			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Segment adjusted EBITDA	**(10.5)**	**(48.4)**	**(6.7)**	**(65.6)**	14.0	(6.7)	(6.1)	1.2
Product development	(7.5)	(4.0)	(0.8)	(12.3)	(8.3)	(4.4)	(1.6)	(14.3)
Corporate costs	(4.1)	(1.7)	(0.4)	(6.2)	(4.2)	(1.9)	(0.5)	(6.6)
Adjusted EBITDA	**(22.1)**	**(54.1)**	**(7.9)**	**(84.1)**	1.5	(13.0)	(8.2)	(19.7)
Depreciation and amortisation	(4.1)	(3.4)	(0.7)	(8.2)	(4.0)	(2.3)	(0.8)	(7.1)
Share-based payments and social security costs	(3.0)	(1.2)	(0.1)	(4.3)	(2.5)	(1.8)	(0.2)	(4.5)
Exceptional items	-	(12.0)	(4.9)	(16.9)	-	-	-	-
Operating loss	**(29.2)**	**(70.7)**	**(13.6)**	**(113.5)**	(5.0)	(17.1)	(9.2)	(31.3)

Balance Sheet and Investments

As previously reported, in 2019 the Group launched new funding products whereby it aggregates loans in warehouses for sale as ABS bonds to widen the universe of investors that access Funding Circle loans. The SME loans are held in bankruptcy remote warehouses and securitisation vehicles. The value of the investments are regularly assessed and have been impacted due to the stress of Covid-19 on SMEs.

Whilst total loans consolidated on balance sheet for accounting purposes is £759m, Funding Circle's exposure is limited to its investment of £110m (31 December 2019: £145m).

The investments are valued by discounting future cash flows and the Group may crystallise more than £110m in cash in future periods as the discounting unwinds.

The tables below breaks down the Group's balance sheet into its constituent parts:

					As at 30 June 2020	**As at 31 December 2019**
	Operating business	**Warehouse SPVs**	**Securitisation SPVs**	**Other investments**	**Total**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Investment in SME loans	1.8	321.8	419.4	15.6	**758.6**	723.5
Cash	74.3	22.9	34.0	-	**131.2**	164.5
Other assets	-	-	13.3	-	**13.3**	8.4
Borrowing/bonds	(0.3)	(279.1)	(438.0)	-	**(717.4)**	(614.5)
Cash & Investments	**75.8**	**65.6**	**28.7**	**15.6**	**185.7**	**281.9**
Other assets	102.0	-	-	-	**102.0**	99.1
Other liabilities	(70.8)	-	-	-	**(70.8)**	(62.0)
Equity	**107.0**	**65.6**	**28.7**	**15.6**	**216.9**	319.0

Funding Circle investment exposure

Funding Circle has various investment vehicles it uses to invest in SME loans. Given the different risk dynamics, each vehicle is affected by Covid-19 in different ways. The table below provides a further breakdown of Funding Circle's investment in these vehicles:

Investment type	Principal invested At 30 June 2020 £m	Balance sheet valuation At 30 June 2020 £m
1. Securitisation SPVs (vertical)	18	18
2. Other investments	16	16
3. Warehouse SPVs	80	66
4. Securitisation SPVs (horizontal)	45	10
Total	**159**	**110**

1) Vertical securitisation retention: Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued (vertical). Covid-19 has had minimal impact on these investments.
2) Other Investments: There are a small amount of Other Investments, comprising seed investments in Private Funds and participation in investments in the UK CBILS programme. Covid-19 has had minimal impact on these investments.
3) Warehouses: In warehouses we deploy our equity and bank debt to aggregate loans temporarily prior to securitisation. The debt is senior which means the equity is more exposed to changes in valuation of loans. When Covid-19 hit, the Group had one UK warehouse at 100% of capacity and two US warehouses at a combined 30% capacity. The intention was to securitise the SME loans in the warehouses but this was not feasible due to Covid-19. In the six month period, the warehouses generated investment AEBITDA of negative £20m comprising £15m investment Income minus £35m fair value adjustments.
4) Horizontal securitisation: Once loans are securitised, we temporarily hold the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn greatest returns, but they also absorb losses first. As at June 2020, we held horizontals in 3 securitisations which were securitised in H2 2019 (UK and US) and H1 2020 (US). The timing of the pandemic meant that it was not feasible to dispose of these horizontal tranches in H1 2020. In the six month period, the horizontal securitisation generated investment AEBITDA of negative £40m comprising £21m investment Income minus £61m fair value adjustments.

Cash flow

As at 30 June 2020, the Group held cash and cash equivalents of £131.2m (31 December 2019: £164.5m). The table below shows how the Group's overall cash has been utilised:

	6 months ended 30 June 2020 £m	6 months ended 30 June 2019 £m
Net cash outflow from operating activities	**(0.6)**	(18.1)
Purchase of tangible and intangible assets	**(5.9)**	(8.1)
Interest received	**0.4**	0.9
Payment of lease liabilities	**(3.5)**	(2.8)
Free cash flow	**(9.6)**	(28.1)
Net cash outflow associated with investor products	**(26.1)**	(35.6)
Net cash inflow from other financing activities	**0.1**	0.5
Effect of foreign exchange	**2.3**	0.2
Movement in the year	**(33.3)**	(63.0)
Cash and cash equivalents at the beginning of the period	**164.5**	333.0
Cash and cash equivalents at the end of the period	**131.2**	270.0

Subsequent events

In July 2020, the Group announced that it is restructuring the US business to accelerate its path to profitability. This included centralising the US technology team in the UK, moving the sales and marketing teams to the Denver office and workforce reductions in aggregate resulting in a net reduction of c.85 roles. The anticipated cash cost of this restructuring is c.£2m.

Going Concern

In considering the preparation of the interim report and financial statements on a going concern basis, the Directors considered and reviewed stress scenarios in relation to the impact and duration of Covid-19 and related restrictions. Covid-19 resulted in the Group adapting its business model to originate through UK and US SME government guarantee programmes(CBILS and PPP), and temporarily suspending lending under non-government-guaranteed programmes. In addition, forbearance measures were implemented to assist in easing the pressure on many of Funding Circle's existing borrowers with the aim of assisting them in remaining viable in the medium to long term while protecting investor returns.

The Group has prepared cash flow projections to 31 December 2021 which include stress scenarios including the timing of when the Group would expect to resume non-government guaranteed lending and the extent to which origination growth would increase. At 30 June 2020, the Group had net assets of £217m.

Under our central stress scenario, defaults accelerate to a peak of three and a half times pre-Covid-19 levels in the second half of 2020 before reducing in 2021 and resulting in cumulative net losses of two times pre-Covid-19 levels. At all times through the forecast period, the Group retains sufficient financial resources.

Additionally, the Group has financial covenants in relation to servicing agreements and the warehouse vehicles consisting of minimum cash and tangible net worth levels and tangible net worth to debt ratios. At all times through the forecast period, the Group remains within the required levels.

Following these forecasts, including the consideration of downside stress scenarios, the Directors are satisfied that the Group has sufficient financial resources such that it is appropriate to prepare the interim financial statements on a going concern basis.

Principal risks and uncertainties

The Group's principal risks and uncertainties were disclosed in the 2019 annual report and accounts after review and approval by the Board. In light of the onset of Covid-19 from March 2020, whilst the Group considers the overall principal risks and uncertainties remain the same in nature, a number of these risks have significantly heightened.

Principal risk	General Impact	Covid-19 Specific Impact
Strategic risk – defined as the failure to build a sustainable, diversified and profitable business that can successfully adapt to environment changes due to the inefficient use of Funding Circle's available resources.	***Economic environment*** - Financial risk that is associated with macroeconomic or political factors that may affect Funding Circle's financial and/or credit performance.	The economic slowdown due to Covid-19 creates uncertainty in terms of the credit risk associated with unsecured lending to small businesses. The current government backed lending programmes are temporary in nature, and may rapidly evolve. These factors may hamper our ability and the timing for Funding Circle to resume platform lending of unsecured loans. We are closely monitoring the external environment and continue to evolve our business model, credit strategy and product offerings.
Funding and liquidity risk – defined as the risks associated with platform funding (matching borrower demand and investor cash supply), capital commitments and corporate liquidity through normal and stress scenarios.	***Funding risk*** - The risk that borrower loan demand cannot be met when and where they fall due or can only be met at an uneconomic price. This risk varies with the economic attractiveness of Funding Circle loans as an investment, the level of diversification of funding sources and the level of resilience of these funding sources through economic cycles. ***Liquidity risk*** - The risk that Funding Circle liabilities cannot be met when and where they fall due or can only at an uneconomic price.	Given the low demand for unsecured lending in the Covid-19 environment, Funding Circle placed a temporary suspension on non-government backed lending. We currently have a strong pipeline for institutional funding of government-backed loans and sufficient liquidity to match borrower demand. However, the timing and ability to resume unsecured lending to pre-Covid levels is uncertain.
Credit risk – defined as the risk of financial loss to an investor should any borrower fail to fulfil their contractual repayment obligations. Credit risk management is the sum of activities necessary to deliver a risk profile at portfolio level in line with Funding Circle management's expectations, in terms of net loss rate, risk-adjusted rate of return and its volatility through economic cycles.	***Borrower acquisition*** - Credit performance and returns of new loans can deviate from expectations due to several factors: changes in credit quality of incoming applications, calibration of risk models or strategy parameters and control gaps in processing loan applications. ***Portfolio risk management*** - Credit performance and returns of existing portfolio can deviate from expectations due to several factors: deterioration of credit environment, increased competition driving higher prepayment rates, effectiveness of portfolio monitoring and collections and recoveries.	There is an increased credit risk of borrowers not meeting their repayment obligations due to the impact of lockdowns and continuing economic slowdown. This can lead to an increase in credit defaults and a decrease in investor net returns. Investor net returns are also contingent on the continuous effectiveness of collections & recoveries activities during the crisis. To mitigate these risks, we have paused unsecured lending for now. Given the government guarantees, credit risk significantly reduces under the government backed lending programs, which have formed the majority of our lending in 2020. We have also increased staffing and adapted our collections capabilities and tools to help borrowers in difficulty.

Principal risk	General Impact	Covid-19 Specific Impact
Regulatory, reputation and conduct risk – defined as engaging in activities that detract from Funding Circle's goal of being a trusted and reputable company with products, services and processes designed for customer success and delivered in a way that will not cause customer detriment or regulatory censure.	***Regulatory risk*** – The risk that Funding Circle's ability to effectively manage its regulatory relationships is compromised or diminished, that the Group's governance and controls framework is not satisfactory given business growth or that there is business interruption by reason of non-compliance with regulation or the introduction of business-impacting regulation.	There is increased regulatory scrutiny in the UK as a result of the economic uncertainty and the perceived increased risks to viability of firms. Conduct risk has also increased due to the challenges of oversight and monitoring of employees and controls in a remote environment. The volume of collections activity also poses an increased regulatory risk regarding the adequate management of borrowers in difficulty. Proactive engagement with the regulator continues Enhanced first line controls and ongoing compliance monitoring and testing is in place to manage conduct risk.
	Reputation risk - Operational or performance failures could lead to negative publicity that could adversely affect our brand, business, results, operations, financial condition or prospects.	There is heightened reputational risk from pursuing collections from borrowers, who have missed payments Forbearance measures have been offered to help borrowers in difficulty in an empathetic way. Quality monitoring has also been enhanced in our collections and recoveries department.

Principal risk	General Impact	Covid-19 Specific Impact
Operational risk Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	***Process risk -*** Failure to operate in accordance with British Business Bank (BBB) guidelines may invalidate CBILS guarantee. This may result in Funding Circle repurchasing loans from investors.	Funding Circle implemented new processes to support the government backed lending schemes. There is a potential for operational errors that may result in repurchasing loans from investors, and this could have an impact on Funding Circle's financials. We have implemented robust controls, as well as independent quality checks to ensure that all loans originated under the government scheme are fully compliant with eligibility requirements. Government programs monitoring and oversight is in place to ensure ongoing program compliance.
	Information security - Failure to protect the confidential information of Funding Circle's borrowers, investors and IT systems may lead to financial loss, reputational damage and regulatory censure.	There is heightened risk driven from staff working from remote locations and using electronic communication channels that may be susceptible to cyberattacks. We are continuing to evolve our workplace and information security policies in the Covid-19 environment, with enhanced monitoring.
	Financial crime - Risk of regulatory breach, financial loss or reputational damage arising from a failure to adequately manage or prevent money laundering, terrorist financing, bribery and corruption, or to comply with sanctions regulations.	There is heightened risk due to the rapid pace of change needed to adapt to government backed lending and to remote working. We have focused on maintaining robust controls through this period of changes, with enhanced detections to mitigate such risks.
	Technology risk - Failure of the technology platform could have a material adverse impact on Funding Circle's business, results of operations, financial condition or prospects.	There is increased reliance on technology with remote working. Rapidly launching and adjusting systems to accommodate government-backed loans also heightened this risk. We have dedicated technical resources to monitor and rapidly fix potential outages, operating within clear disaster and recovery contingency plans.
	Client money risk - Failure of Funding Circle to adequately protect and segregate client money may lead to financial loss, reputational damage and regulatory censure.	New trust structures set up in the UK for CBILS and BBLS loans have required additional controls to be implemented. Client money flows through these schemes is protected and segregated under the same standards and best practices applied across the platform, including performing internal and external reconciliations daily. In addition, given the temporary pause of retail investment, we have observed an increase in retail money balances. Retail money continues to be segregated from institutional and Funding Circle money and additional monitoring controls have been put in place to mitigate client money risks.

Statement of Directors’ Responsibilities

The Directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 (“Interim Financial Reporting”) as adopted by the European Union and gives a true and fair view of the assets, liabilities, financial position and loss as required by DTR 4.2.4 and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

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

The Directors of Funding Circle Holdings plc are listed in the Company’s Report and Accounts for the year to 31 December 2019. A list of current Directors is maintained on the Funding Circle Holdings plc website: www.corporate.fundingcircle.com.

By order of the Board

Samir Desai, Chief Executive Officer

Oliver White, Chief Financial Officer

24 September 2020

Condensed consolidated statement of comprehensive income

For the six months to 30 June 2020 (unaudited)

	Note	Before exceptional items £m	Exceptional items [1] £m	Unaudited 6 months to 30 June 2020 Total £m	Unaudited 6 months to 30 June 2019 Total £m
Transaction fees		47.8	-	47.8	62.5
Servicing fees		13.8	-	13.8	15.2
Other fees		3.2	-	3.2	2.7
Fee income		**64.8**	**-**	**64.8**	**80.4**
Investment income		49.8	-	49.8	2.2
Investment expense		(13.4)	-	(13.4)	(0.9)
Total income		**101.2**	**-**	**101.2**	**81.7**
Fair value (losses)/gains		(96.1)	-	(96.1)	(0.3)
Net income		**5.1**	**-**	**5.1**	**81.4**
People costs		(44.5)	(3.8)	(48.3)	(45.5)
Marketing costs		(22.4)	-	(22.4)	(35.2)
Depreciation, amortisation and impairment		(8.2)	(12.4)	(20.6)	(7.1)
Loan repurchase charge		(5.5)	-	(5.5)	(4.2)
Other costs		(21.1)	(0.7)	(21.8)	(20.7)
Operating expenses	5	**(101.7)**	**(16.9)**	**(118.6)**	**(112.7)**
Operating loss		**(96.6)**	**(16.9)**	**(113.5)**	**(31.3)**
Finance income		0.3	-	0.3	1.0
Finance costs		(0.8)	-	(0.8)	(0.5)
Share of net loss of associates		(1.1)	-	(1.1)	-
Loss before taxation		(98.2)	(16.9)	(115.1)	(30.8)
Income tax	7	(0.1)	-	(0.1)	(0.2)
Loss for the period		(98.3)	(16.9)	(115.2)	(31.0)
Other comprehensive income Items that may be reclassified subsequently to profit and loss:					
Exchange differences on translation of foreign operations		8.7	-	8.7	1.0
Total comprehensive loss for the period		(89.6)	(16.9)	(106.5)	(30.0)
Total comprehensive loss attributable to:					
Owners of the parent		(89.6)	(16.9)	(106.5)	(30.0)
Loss per share					
Basic and diluted loss per share	8	(28.2)p	(4.8)p	(33.0)p	(8.9)p

[1] Exceptional items are detailed within note 6.

Condensed consolidated balance sheet
As at 30 June 2020 (unaudited)

	Note	Unaudited 30 June 2020 £m	31 December 2019 £m
Non-current assets			
Goodwill	9	-	11.3
Intangible assets	10	26.1	23.6
Property, plant and equipment	11	36.1	39.0
Investments in associates	12	11.7	13.2
Investment in trusts		3.9	-
Investment in SME loans (other)	13	1.8	1.7
		79.6	88.8
Current assets			
Investment in SME loans (curing)	13	-	-
Investment in SME loans (warehouse)	13	321.8	342.0
Investment in SME loans (securitised)	13	419.4	366.6
Trade and other receivables		54.0	33.6
Cash and cash equivalents		131.2	164.5
		926.4	906.7
Total assets		1,006.0	995.5
Current liabilities			
Trade and other payables		25.2	19.7
Bank borrowings	14	279.4	265.8
Bonds		438.0	348.7
Lease liabilities	11	7.5	8.5
Short-term provisions	15	9.4	3.1
		759.5	645.8
Non-current liabilities			
Long-term provisions	15	0.9	0.9
Lease liabilities	11	28.7	29.8
Total liabilities		789.1	676.5
Equity			
Share capital		0.4	0.3
Share premium account		292.5	292.3
Foreign exchange reserve		16.7	8.0
Share options reserve		14.7	11.9
(Accumulated losses)/retained earnings		(107.4)	6.5
Total equity		216.9	319.0
Total equity and liabilities		1,006.0	995.5

These condensed interim financial statements were approved by the Board on 24 September 2020. They were signed on behalf of the Board by:

O White
Director

Condensed consolidated statement of changes in equity

For the six months to 30 June 2020 (unaudited)

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Retained earnings / (accumulated losses) £m	Total equity £m
Balance as at 1 January 2020		0.3	292.3	8.0	11.9	6.5	319.0
Loss for the period		-	-	-	-	(115.2)	(115.2)
Other comprehensive income:							
Exchange differences on translation of foreign operations		-	-	8.7	-	-	8.7
Transactions with owners							
Issue of share capital		0.1	0.2	-	-	-	0.3
Transfer of share option costs		-	-	-	(1.3)	1.3	-
Employee share schemes – value of employee services		-	-	-	4.1	-	4.1
Unaudited balance at 30 June 2020		**0.4**	**292.5**	**16.7**	**14.7**	**(107.4)**	**216.9**
Balance as at 1 January 2019		0.3	291.8	15.7	6.0	87.2	401.0
Loss for the period		-	-	-	-	(31.0)	(31.0)
Other comprehensive income:							
Exchange differences on translation of foreign operations		-	-	1.0	-	-	1.0
Transactions with owners							
Issue of share capital		0.1	0.4	-	-	-	0.5
Transfer of share option costs		-	-	-	(1.5)	1.5	-
Employee share schemes – value of employee services		-	-	-	5.6	-	5.6
Unaudited balance at 30 June 2019		0.4	292.2	16.7	10.1	57.7	377.1

Condensed consolidated statement of cash flows

For the six months to 30 June 2020 (unaudited)

	Note	Unaudited 6 months to 30 June 2020	Unaudited 6 months to 30 June 2019
		£m	£m
Net cash outflow from operating activities	17	(0.6)	(18.1)
Investing activities			
Purchase of intangible assets		(5.5)	(5.9)
Purchase of property, plant and equipment		(0.4)	(2.2)
Cash receipts from SME loans (curing)		-	2.0
Purchase of SME loans (other)		-	(1.7)
Purchase of SME loans (warehouse phase)		(289.6)	(179.7)
Cash receipts from SME loans (warehouse phase)		63.5	3.9
Cash receipts from SME loans (securitised)		108.0	-
Investment in trusts		(3.9)	-
Redemption/(Investment) in private funds		0.3	(5.6)
Dividends received from private funds		0.3	-
Finance income received		0.4	0.9
Net cash outflow from investing activities		(126.9)	(188.3)
Financing activities			
Proceeds from bank borrowings		206.5	145.5
Repayment of bank borrowings		(200.6)	-
Proceeds from issuance of bonds		190.1	-
Payment of bond liabilities		(100.7)	-
Proceeds from the exercise of share options		0.1	0.5
Payment of lease liabilities		(3.5)	(2.8)
Net cash inflow from financing activities		91.9	143.2
Net decrease in cash and cash equivalents		(35.6)	(63.2)
Cash and cash equivalents at the beginning of the period		164.5	333.0
Effect of foreign exchange rate changes		2.3	0.2
Cash and cash equivalents at the end of the period		131.2	270.0

Notes to the condensed interim financial statements
For the six months to 30 June 2020 (unaudited)

1. Basis of preparation

General information

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

These condensed interim financial statements have been prepared as at, and for the six months to, 30 June 2020. The comparative financial information presented has been prepared as at, and for the six months to 30 June 2019 and as at 31 December 2019.

The interim financial information presented as at, and for the six months to, 30 June 2020 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements of the Group as at, and for the year to, 31 December 2019 are available on request from the Company's registered office and via the Company's website.

Going concern

The Group made a total comprehensive loss of £106.5 million during the six months to 30 June 2020 (30 June 2019: loss of £30.0 million). The cash and cash equivalent balance of the Group as at 30 June 2020 was £131.2 million (31 December 2019: £164.5 million).

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

After receiving accreditation for CBILS lending, the UK business has seen strong performance in originations and is well positioned to facilitate further lending depending on the duration and extent of ongoing government guarantee programmes, or with a view to resuming the facilitation of non-government guarantee lending if the government schemes end. As discussed in note 22, the Group has announced a reorganisation of the US business centralising technology roles within the UK and sales and marketing in Denver.

The Group has prepared detailed cash flow forecasts for the next 15 months and has updated the going concern assessment to factor in the potential impact and economic uncertainty caused by Covid-19.

The base case scenario assumes:

- The expectation of ongoing Government support for SMEs in the UK, or the resumption of non-government lending if government support schemes end;

- There is no extension to the PPP government scheme in the US;

- Non-government scheme lending on the platform resumes from January 2021;

- Lending in the US steadily increases; and

- Costs and headcount remain relatively flat with marketing at c.30% of income.

Management prepared a stress scenario in which:

- CBILS in the UK is not extended beyond end of September 2020;

- UK and US non-government lending does not meaningfully resume until January 2021; and

- A downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher initial fair value losses and lower cash flows to the subordinate tranches of investments it owns.

Even in the stress scenario, sufficient cash is forecast to be generated to meet liabilities as they fall due without the requirement to take significant mitigating actions or restructuring beyond that already announced. The Group does not currently rely on committed or uncommitted borrowing facilities with the exception of borrowings used to fund warehouse SME loan purchases, and does not have undrawn committed borrowing facilities available to the wider Group.

Management have reviewed financial covenants the Group must adhere to in relation to its servicing agreements. These are with institutional investors and debt facilities associated with borrowings used to fund SME loan originations in warehouses, which require minimum levels of unrestricted cash in the Group and maintaining maximum debt to tangible net worth ratios. Even in stressed scenarios there is not considered to be a material risk of a covenant breach despite a narrowing of headroom in the near term.

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

Basis of preparation

These condensed interim financial statements, which have been reviewed and not audited, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, "Interim Financial Reporting" as adopted by the EU. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year to 31 December 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the EU, including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Standard Interpretations Committee (IFRS-IC).

The financial information included in these condensed interim financial statements does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the 'Act'). The statutory accounts for the year to 31 December 2019 have been reported on by the Company's auditors and were delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Act.

Significant changes in the current reporting period

The financial position and performance of the Group was affected by the following events and transactions during the six months to 30 June 2020:

i) Covid-19

As a result of the global Covid-19 pandemic and the related uncertainty and restrictions required in the geographies that Funding Circle operates within, lending fell considerably in the latter half of March 2020. SME government guarantee programmes introduced by the UK and US governments, and Funding Circle's subsequent accreditation resulted in originations restarting with new borrower products as detailed below and the temporary cessation of non-government guaranteed lending. The Group's exposure to ABS products resulted in significant fair value losses as detailed below.

Additionally, forbearance measures were introduced in order to protect the best interests of both Funding Circle's borrowers and investors.

ii) The UK Government's Coronavirus Business Interruption Loan Scheme ("CBILS") funding

During the period, due to the Covid-19 crisis, Funding Circle became an accredited lender under CBILS. Funding Circle is required to co-invest in loans originated through this scheme. The loans are beneficially owned by investors under trust structures in which Funding Circle retains a de minimis stake.

The Group does not consolidate the trusts or the loans held within the trusts, recognising its interest in the loans instead as an investment in trust assets on the balance sheet. This investment is held at fair value through profit and loss 'FVTPL'.

iii) Paycheck protection programme ("PPP") loan funding

During the period, due to the Covid-19 crisis, the US business was approved to originate loans under the US government's PPP scheme. Funding Circle funded PPP loans via its lending platform by partnering with financial institutions and institutional investors, for which it earns a referral fee or origination fee. It has no ongoing retention in the PPP loans.

iv) Asset-backed securities ("ABS")

The Group continued its bond programmes which commenced in the prior year in the UK and US, continuing to invest in SME loans during the "warehousing phase" of the programme using both its own cash and amounts borrowed under credit facilities with lending institutions. An additional credit facility and warehouse vehicle in the US was utilised in the period to 30 June 2020. The loans are held within bankruptcy remote special purpose warehouse vehicles which are consolidated on the Group's balance sheet. Once the warehouse vehicle reaches sufficient scale, the SME loans are sold into another bankruptcy remote special purpose vehicle ("SPV") financed through the issuance of bonds to third party investors and the amounts borrowed under the credit facility are repaid. During the period to 30 June 2020 a further £221.9 million of SME loans have been sold to SPVs (30 June 2019: £nil).

The bonds are split into senior rated bonds (referred to as "rated") and junior unrated bonds (referred to as "unrated") and Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued.

Additionally, once loans are securitised, Funding Circle temporarily holds the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn greatest returns, but they also absorb losses first. As at June 2020, Funding Circle held horizontals in 3 securitisations which were securitised in H2 2019 (UK and US) and H1 2020 (US). The timing of the pandemic meant that it was not feasible to dispose of these horizontal tranches in H1 2020.

2. Changes in significant accounting policies

The accounting policies, methods of computation and presentation adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year to 31 December 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adoption.

Summary of new accounting policies
Investment in trusts
The Group holds a de minimis beneficial ownership in trusts set up to fund CBILS loans with the remaining beneficial ownership held by institutional investors. Whilst SME loans are originated by a Group subsidiary, Funding Circle Focal Point Lending Ltd, which retains legal title to the loans, it holds this legal title of trust on behalf of the investors and therefore the SME loans are not consolidated.

The Group assesses whether it controls the trust structure under the criteria of IFRS 10. Control is determined to exist if the Group has the power to direct the activities of entity's and structures and uses this control to obtain a variable return. As the Group's de minimis holding is pari passu, the Group is not exposed to the majority of the variability in the cash flows of the trust, and it is not considered to control the trust structures, so they are not consolidated by the Group.

Investments in trusts are classified at fair value through profit and loss. They are initially recognised at fair value on the balance sheet with the subsequent measurement at fair value with all gains and losses being recognised in the consolidated statement of comprehensive income.

The Group recognises transaction fee income on origination of loans within the trust and service fee income on the assets within the trust, eliminating its proportional ownership share of the service fees. A scheme lender fee is charged in relation to the origination of CBILS loans and investment income is recognised in relation to returns on the investment.

3. Critical accounting estimates and judgments

The preparation of the condensed interim financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty.

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

There were no critical judgements in the current period. The significant estimates and judgements applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2019.

Key sources of estimation uncertainty

The following are the key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

a) Loan repurchase provision (note 15)

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

In order to quantify the ECL, IFRS 9 is followed. Estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information including macroeconomic forecasts such as changes in interest rates, GDP and inflation in each market together with the impact on loan defaults. It is estimated that in both the European markets defaults will accelerate to a peak in H2 2020 and then de-stress gradually afterwards, with Germany expected to fair more favourably than Netherlands as a result of government stimulus programme. The most significant estimation is with default rates on performing loans. For the period ended 30 June 2020 the weighted average lifetime default rate is estimated at 24.1% under stress assumptions (31 December 2019: 12.9% without Covid-19 stress). If the weighted average default rate estimate were to change by +/-25% the provision would change by £2.2 million for the period ended 30 June 2020 (31 December 2019: £1.5 million). It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-25% and as a result it is possible that the provision in future could materially diverge from management's estimate.

b) Fair value of financial instruments (note 16)

At 30 June 2020, the carrying value of the Group's financial instrument assets held at fair value was £779.5 million (31 December 2019: £754.8 million) and the carrying value of financial liabilities carried at fair value was £5.3 million (31 December 2019: £20.0 million).

In accordance with IFRS 13 Fair Value Measurement, the Group categorises financial instruments carried on the consolidated balance sheet at fair value using a three-level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal estimation applied in determining fair value. However, the fair value of financial instruments categorised as level 2 and, in particular, level 3 is determined using valuation estimation techniques including discounted cash flow analysis and valuation models. The most significant estimation is with respect to discount rates and default rates. In light of Covid-19, a range of stress scenarios were used incorporating different default and recovery stresses.

For the UK Portfolio the Group applied different stress levels to different segments of the portfolio depending on the borrower behaviour observed to date. 1) borrowers that weathered the lockdown without missing payments or needing plans are performing better than pre-crisis average in the short term, with moderate stress possible in the medium term due to a weak economy, 2) borrowers late and not on a plan are expected to incur standard high default rates for such populations, 3) borrowers that took payment plans or holidays are expected to exhibit a credit performance in-between the two segments above. The resultant impact on the portfolios is a peak in defaults in H2 2020 with a tail normalising over 2021 into 2022.

Similarly in the US the loss scenario involved splitting the loan book by borrower segment based on their observed behaviour since the start of the crisis. This also produces an expectation of a peak in defaults in H2 2020 with a tail normalising over 2021 into 2022. Overall, it is estimated that a similar level of stress will occur in the US and UK over the coming years.

A sensitivity to the default rates and discount rate are illustrated below.

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans – (warehouse)	321.8	Lifetime cumulative default rate as % of original	US 18.6 and 21.7%[1] UK 15.7%	A change in the lifetime cumulative default rate would have the following impact: US: +/- 200 bps would decrease/increase fair value by £2.4 million. UK: +/- 160 bps would decrease/increase fair value by £3.3 million.
Investment in SME loans – (securitised)	419.4	Lifetime cumulative default rate as % of original	US 23.4 and 26.2%[1] UK 17.4%	A change in the lifetime cumulative default rate would have the following impact: US: +/- 250 bps would decrease/increase fair value by £9.0 million. UK: +/- 170 bps would decrease/increase fair value by £2.3 million.
Bonds (Unrated)	(5.3)	Lifetime cumulative default rate of associated assets.	17.4%	A change in the lifetime cumulative default rate by +/- 170 bps would increase/decrease fair value by £0.4 million.

[1]Two cumulative default rates are presented for the US representing the portfolios in each of the two respective warehouses and two respective securitisation vehicles.

For the illustration of sensitivity a 10% change in cumulative lifetime loss rates has been applied above. However given ongoing uncertainty in relation to the impact of Covid-19 in the future, the reasonably possible range of outcomes could be wider than those illustrated. In Particular a more severe impact from Covid-19 in future than that estimated by management could result in the fair value of the assets materially diverging from management's estimate, while a less severe impact from Covid-19 in future would be estimated to produce a more limited range of reasonably possible outcomes.

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans – (warehouse)	321.8	Risk-adjusted discount rate	US 7.9% UK 7.7%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £4.7 million
Investment in SME loans – (securitised)	419.4	Risk-adjusted discount rate	US 7.9% UK 7.7%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £5.7 million
Bonds (Unrated)	(5.3)	Risk-adjusted discount rate	27.1%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £0.2 million

It is considered that the range of reasonably possible outcomes in relation to the discount rate used could be +/-100 bps and as a result the fair value of the assets could materially diverge from management's estimate.

As the discount rate is risk-adjusted, it should be noted that the sensitivities to discount rate and to lifetime cumulative default rate contain a level of overlap regarding credit risk. The sensitivity in expected lifetime cumulative defaults should not also be applied to the sensitivity of the credit risk element of the risk-adjusted discount rate and the sensitivities are most meaningful viewed independently of each other.

c) Estimated impairment of non-financial assets (notes 9 and 10)

Non-financial assets (primarily goodwill, intangible assets and property plant and equipment) are held within the Group within cash generating units ("CGUs") which are expected to benefit from the assets. The Group has three CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries, Funding Circle Limited ("FCUK") and its subsidiaries and the German and Dutch businesses (Funding Circle Continental Europe or "FCCE"). These assets are assessed annually for impairment or when indicators of impairment are identified. Following the impact of Covid-19 and a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group has undertaken an interim impairment review of non-financial assets in CGUs.

The impairment test involved comparing the carrying value of the net assets held for use to their recoverable amount for each CGU. The recoverable amount represents the higher of the entity's fair value net of selling costs and its value in use, which were determined using discounted cash flow methodology. In undertaking the impairment assessment it was noted that FCUK was not sensitive to estimation uncertainty, nor was FCCE as the non-financial assets were impaired in the previous assessment for the year ended 31 December 2019.

The review identified impairment to the goodwill in FCUSA as the fair value less cost to sell calculated was below the carrying amount and the goodwill was fully impaired by £12.0m. IAS 36 allocates impairment losses first to goodwill followed by other non-financial assets, however it prohibits the reversal of goodwill impairment. As a result the impairment assessment is not sensitive to a higher estimation of the recoverable amount, however a lower estimated recoverable amount could lead to impairment of intangible assets within the CGU which are held at a carrying value of £11.3m and property, plant and equipment totalling £1.7m (excluding right of use assets).

The Group prepared a five-year forecast for the FCUS CGU for which the majority of the sensitivity is in the growth rate applied to the fifth year which is forecast out into perpetuity. The cash flow projections are based on the following key assumptions presented along with the sensitivity to a reduction in the recoverable amount for each key assumption:

- income growth at a compound growth rate of 23.9%. A 500bps reduction in projected 5th year income growth rate with no cost reduction would decrease the recoverable amount by £13.2 million.
- cost growth at a compound rate of 12.5%. A 500bps increase in projected 5th year cost growth rate with no income increase would decrease the recoverable amount by £11.2 million.
- pre-tax discount rate of 15%. A 1% increase in discount rate would decrease the recoverable amount by £3.6 million.
- income beyond the five-year period extrapolated using an estimated growth rate of 1.5%. A reduction in the growth rate to 1.0% would reduce the recoverable amount by £1.1 million.

4. Segmental information

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

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

The GLT measures the performance of each segment by reference to a non-GAAP measure, adjusted EBITDA which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA"); and additionally excludes share-base payment charges and associated social security costs, foreign exchange, and exceptional items (see note 6). Together with Operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better interpretation of the underlying performance of the business.

During the period to 30 June 2020 organisational changes led to greater ownership of costs being managed within geographies. As a result the way the operating segment performance is reported to and reviewed by the GLT was modified to allocate product development, corporate costs, depreciation and amortisation, share based payments and exceptional items across the geographical segments. The comparatives of 30 June 2019 have been restated to reflect the revised segmental presentation.

Net income/(loss)	**30 June 2020**				30 June 2019 (restated)			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	**59.3**	**38.0**	**3.9**	**101.2**	53.0	22.2	6.5	81.7
Fair value (losses)/gains	(34.8)	(61.3)	-	(96.1)	-	(0.3)	-	(0.3)
Net income/(loss)	**24.5**	**(23.3)**	**3.9**	**5.1**	53.0	21.9	6.5	81.4

Segment profit	**30 June 2020**				30 June 2019 (restated)			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Segment adjusted EBITDA	**(10.5)**	**(48.4)**	**(6.7)**	**(65.6)**	14.0	(6.7)	(6.1)	1.2
Product development	(7.5)	(4.0)	(0.8)	(12.3)	(8.3)	(4.4)	(1.6)	(14.3)
Corporate costs	(4.1)	(1.7)	(0.4)	(6.2)	(4.2)	(1.9)	(0.5)	(6.6)
Adjusted EBITDA	**(22.1)**	**(54.1)**	**(7.9)**	**(84.1)**	1.5	(13.0)	(8.2)	(19.7)
Depreciation and amortisation	(4.1)	(3.4)	(0.7)	(8.2)	(4.0)	(2.3)	(0.8)	(7.1)
Share-based payments and social security costs	(3.0)	(1.2)	(0.1)	(4.3)	(2.5)	(1.8)	(0.2)	(4.5)
Exceptional items	-	(12.0)	(4.9)	(16.9)	-	-	-	-
Operating loss	**(29.2)**	**(70.7)**	**(13.6)**	**(113.5)**	(5.0)	(17.1)	(9.2)	(31.3)

5. Operating expenses

	30 June 2020 Before exceptional items £m	30 June 2020 Exceptional items £m	30 June 2020 Total £m	30 June 2019 Total £m
Depreciation, amortisation and impairment	8.2	12.4	20.6	7.1
Rental income and other recharges	(0.4)	-	(0.4)	(0.1)
Employment costs (including contractors)	44.5	3.8	48.3	45.5
Marketing costs (excluding employee costs)	22.4	-	22.4	35.2
Data and technology costs	5.7	-	5.7	4.9
Loan repurchase charge	5.5	-	5.5	4.2
Other expenses	15.8	0.7	16.5	15.9
Total operating expenses	101.7	16.9	118.6	112.7

6. Exceptional items

The Group reflects its underlying financial results in the Before Exceptional Items column of the consolidated income statement in order to provide a clear and consistent view of trading performance.

As announced in March 2020, the Group is restructuring the German and Dutch (Developing Markets) businesses to focus on referring loans it originates to local lenders. This restructuring has resulted in one-off costs totaling £4.9 million. These comprised redundancy costs of £3.8 million, accelerated depreciation on the right of use assets of £0.4 million and other costs of £0.7 million. Cash payments associated with these items totaled £2.4 million to 30 June 2020.

Following a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group has undertaken an interim goodwill impairment review as a result in which it was identified that goodwill in relation to Funding Circle USA business was carried at a value higher than the business unit's fair value less cost to sell driven by a reduction in the future discounted cash flows of the Business Unit. As a result, an impairment was recognised of £12.0 million. There was no cash movement in relation to the impairment.

7. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The estimated average annual tax rate used for the six months to 30 June 2020 (excluding the tax charge on Research and Development Expenditure Credits (RDEC)) is nil%, compared to nil% for the six months to 30 June 2019. The major components of income tax expense in the condensed consolidated statement of comprehensive income are:

	30 June 2020 £m	30 June 2019 £m
Current tax		
UK corporation taxation	0.1	0.2
Total current tax	0.1	0.2
Total tax charge	0.1	0.2

The Group continues to be in a loss making position, however, credits receivable in respect of RDEC are subject to UK corporation tax. The above tax charge represents the amount of tax deducted from the gross RDEC credit receivable for 2020.

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

8. Losses per share

	30 June 2020 £m	30 June 2019 £m
Loss for the period	(115.2)	(31.0)
Weighted average number of ordinary shares in issue (million)	348.8	346.7
Basic and diluted loss per share	(33.0)p	(8.9)p
Loss for the year before exceptional items	(98.3)	n/a
Weighted average number of ordinary shares in issue (million)	348.8	n/a
Basic and diluted loss per share before exceptional items	(28.2)p	n/a

9. Goodwill

	£m
Cost and carrying amount	
At 1 January 2020	11.3
Exchange differences	0.7
Impairment charge	(12.0)
At 30 June 2020	-

The annual goodwill impairment assessment was performed at 31 December 2019. Following the impact of Covid-19 and a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group has undertaken an interim goodwill impairment review for all CGUs as a result.

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

	30 June 2020	**31 December 2019**
	£m	**£m**
FCUSA	-	11.3
FCCE	-	-
Total	-	11.3

The impairment test involved comparing the carrying value of the net assets held for use to their recoverable amount. The recoverable amount represents the higher of the entity's fair value less costs to sell and its value in use. The recoverable amount was determined using fair value less cost to sell calculations utilising discounted cash flows.

Further details of the impairment assessment are detailed within note 3. The review identified impairment to the goodwill in FCUSA as the fair value less cost to sell calculated was below the carrying amount. The cumulative amount of impairment losses in relation to goodwill recognised in the period was £12.0 million (31 December 2019: £29.0 million).

10. Intangible assets

	Capitalised development costs	Computer software	Other intangibles	Total
	£m	£m	£m	£m
Net book value				
At 31 December 2019	23.3	0.2	0.1	23.6
At 30 June 2020	25.7	0.3	0.1	26.1

11. Property, plant and equipment, right-of-use assets and lease liabilities

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

	30 June 2020 £m	31 December 2019 £m
Property, plant and equipment (owned)	4.9	5.1
Right-of-use assets	31.2	33.9
	36.1	39.0

Lease liabilities – maturity analysis

	30 June 2020 £m	31 December 2019 £m
No later than one year	7.5	8.5
Later than one year and no later than five years	24.5	24.5
Later than five years	4.2	5.3
Total	36.2	38.3

Lease liabilities

	30 June 2020 £m	31 December 2019 £m
Current	7.5	8.5
Non-current	28.7	29.8
Total	36.2	38.3

12. Interest in associates

During the six month period to June 2020, Funding Circle UK SME Direct Lending Fund I received additional committed capital from external investors of £30.0 million. This increased the committed capital in the fund to £65.0 million of which the Group provided £5.0 million, reducing its holding from 14.3% to 7.7%. In April 2020, the Group injected a further £0.4 million into the fund. This increased the committed capital in the fund to £65.4 million of which the Group provided a total of £5.4 million, increasing its holding to 8.3%.

The Group holds 23.6% of Funding Circle European SME Direct Lending Fund I and 8.3% of Funding Circle UK SME Direct Lending Fund I at 30 June 2020.

The Group's share of losses from associates in the period was £1.1 million (30 June 2019: £nil).

13. Investments in SME loans

	30 June 2020 £m	31 December 2019 £m
Non-current		
Investment in loans (other) – amortised cost	1.8	1.7
Current		
Investment in loans (curing) – FVTPL	-	-
Investment in loans (warehouse) – FVTPL	321.8	342.0
Investment in SME loans (securitised) – FVTPL	419.4	366.6
	743.0	710.3

14. Borrowings

During 2020, the Group maintained revolving credit facility agreements of up to £220 million and $180 million for the Group's UK and US ABS programmes respectively, including a new facility in the US of up to $175 million in the period. The facilities are drawn down in order to fund the purchase of SME loans for the warehouses.

Due to the impact of Covid-19 and the refocus towards CBILS and PPP loan originations, the warehouses have ceased reinvestment of proceeds from SME loans and commenced paying down the outstanding facility balances. As at 30 June 2020, the amounts drawn in the UK and US totalled £192.4 million (2019: £71.5 million) and $107.1 million (2019: $95.8 million) respectively. Interest is payable on the borrowings in the UK at 1.50% plus 1 month LIBOR and in the US at 2.5% plus the 3 month commercial paper rate on the initial facility and at 3 month USD LIBOR + 2% on the new facility respectively.

Additionally in the US the Group has drawn $0.3m (2019: $nil) on the PPP Liquidity Facility available from the Federal Reserve Bank at a fixed interest rate of 0.35%.

15. Provisions

	Dilapidation £m	Loan repurchase £m	Restructuring[1] £m	Other £m	Total £m
At 1 January 2019	0.8	3.1	-	0.7	4.6
Additional provision	0.1	4.2	-	-	4.3
Amount utilised	-	(4.4)	-	(0.1)	(4.5)
At 30 June 2019	0.9	2.9	-	0.6	4.4
Additional provision	-	2.3	-	0.7	3.0
Reclassification	-	0.5	-	(0.5)	-
Amount utilised	-	(2.8)	-	(0.6)	(3.4)
At 31 December 2019	0.9	2.9	-	0.2	4.0
Additional provision	-	5.5	4.5	0.9	10.9
Amount utilised	-	(2.0)	(2.4)	(0.2)	(4.6)
At 30 June 2020	0.9	6.4	2.1	0.9	10.3

[1]Restructuring provision is in relation to reorganisation of the German and Dutch businesses, see note 6.

Current and non-current

	30 June 2020 £m	31 December 2019 £m
Current provisions	9.4	3.1
Non-current provisions	0.9	0.9
Total	10.3	4.0

Loan repurchase provision

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

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

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

The Group previously defined a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date. Under the loan repurchase contracts, this was the point at which there is an obligation for the Group to make a payment under the contract or buy back the loan. However while the buyback agreement is contractually defined as 90 days past-due, due to the impact of Covid-19, a consent letter was signed with the institutional investors in April 2020 to accommodate loans on forbearance plans whereby loans on such plans will be repurchased at 180 days past-due. As a result the 90 day overdue definition of default applies to loans in the portfolio not on forbearance, and 180 days overdue is applied for those on forbearance plans.

If the loan is bought back by the Group, at the point of buy back, the financial asset associated with the purchase meets the definition of purchased or originated credit impaired ("POCI"); this element of the reserve is therefore based on lifetime ECLs.

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

	Performing: 12-month ECL £m	Underperforming: Lifetime ECL £m	Non-performing: Lifetime ECL £m	Total loan repurchase provision £m
At 1 January 2019	2.1	0.8	0.2	3.1
Provision against new loans originated	2.8	-	-	2.8
Provision against loans transferred from performing	(3.6)	(0.1)	7.4	3.7
Amounts utilised	-	-	(7.2)	(7.2)
Loans repaid	(0.5)	-	-	(0.5)
Change in probability of default	1.3	0.1	(0.4)	1.0
At 31 December 2019	2.1	0.8	-	2.9
Provision against new loans originated	-	-	-	-
Provision against loans transferred from performing	(0.3)	3.1	2.0	4.8
Amounts utilised	-	-	(2.0)	(2.0)
Loans repaid	(0.4)	-	-	(0.4)
Change in probability of default	1.1	-	-	1.1
At 30 June 2020	**2.5**	**3.9**	**-**	**6.4**

	Expected credit loss coverage (%)	Basis for recognition of loan repurchase provision	Gross assets of external parties subject to loan repurchase provisions (£m)	Loan repurchase provision (£m)
As at 31 December 2019				
Performing (due in 30 days or less)	5	12 month ECL	40.6	2.1
Underperforming (31–90 days overdue)	81.3	Lifetime ECL	0.9	0.8
Non-performing (90+ days overdue)	100	Lifetime ECL	-	-
		Total	41.5	2.9
As at 30 June 2020				
Performing (due in 30 days or less)	8.6	12 month ECL	28.5	2.5
Underperforming (31–90 days overdue)	69.9	Lifetime ECL	5.6	3.9
Non-performing (90+ days overdue & 180 days+ overdue in forbearance)	100	Lifetime ECL	-	-
		Total	34.1	6.4

The percentages applied above are based on the Group’s past experience of delinquencies and loss trends, as well as forward-looking information in the form of macroeconomic scenarios governed by an impairment committee, which considers macroeconomic forecasts such as changes in interest rates, GDP and inflation.

Macroeconomic scenarios are probability weighted within the model and include stress scenarios of: i) low losses, a high GDP, market confidence and political stability; ii) normal losses based on baseline economic conditions; iii) high losses with manufacturing and political instability; iv) Very high losses reflecting Covid-19 stress scenarios with an acceleration of defaults to a peak in H2 2020 and then de-stress gradually afterwards.

The stress scenario used was a geography-weighted scenario reflecting higher losses on the Netherlands book than that of the German portion of the loan book. This reflects the impact of the German government’s stimulus programme, resulting in a blended stress of defaults peaking in H2 2020 and de-stressing gradually afterwards.

The expected credit loss model includes actual defaults determined by monthly cohort, adjusted for forecasted lifetime cumulative default rates. It applies the latest default curve and lifetime default rates tailored to each cohort based on the expected lifetime default rate. When actual defaults trend higher than the curve, the forecast default curve is shifted upwards to align with actual performance. The items that the model is most sensitive to are delinquencies and default rates. Management has applied an estimated weighted average lifetime default rate across cohorts of 24.1% (31 December 2019: 12.9%). See note 3 for a sensitivity analysis on the impact of a change in default rates. At 30 June 2020, there is only one portfolio of loans.

The maximum exposure the Group might have to pay at the balance sheet date if 100% of eligible loans were required to be bought back would be £34.1 million (31 December 2019: £41.5 million). This would be dependent on the timing of any eligible loans defaulting. Repayments of eligible loans are no longer reinvested and therefore the final loan is due to expire in December 2024, along with the associated financial guarantees.

16. Fair value measurement of financial instruments

Financial risks arising from financial instruments are analysed into credit risk, liquidity risk, market risk (including currency risk, interest rate risk and other price risk) and foreign exchange risk. These condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. Details of how these risks are managed are discussed in the Funding Circle Holdings plc's financial statements for the year to 31 December 2019.

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

The definitions, details of the inputs and the valuation techniques in determining the fair values of the Group's financial instruments are shown in the Funding Circle Holdings plc financial statements for the year to 31 December 2019.

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

There have been no changes in the valuation techniques for any of the Group's financial instruments held at fair value in each of the periods presented. The fair value of financial instruments that are not traded in an active market (for example, investments in SME loans) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The investments categorised as level 2 all relate to investment in SME loans (curing). These are typically held for two to three days before being transferred to independent investors at the principal amount.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements (year to 31 December 2019: none).

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

- Investments in loans (other) and (curing)
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Bank borrowings; and
- Lease liabilities

Categorisation of financial assets and financial liabilities

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

	30 June 2020			31 December 2019		
	Assets at fair value through profit and loss	Amortised cost	**Total**	Assets at fair value through profit and loss	Amortised cost	**Total**
	£m	£m	£m	£m	£m	£m
Assets						
Investments in SME loans (other)	-	1.8	1.8	-	1.7	1.7
Investment in SME loans (warehouse)	321.8	-	321.8	342.0	-	342.0
Investment in SME loans (securitised)	419.4	-	419.4	366.6	-	366.6
Investment in trusts	3.9	-	3.9	-	-	-
Trade and other receivables	0.5	20.8	21.3	0.2	21.9	22.1
Cash and cash equivalents	33.9	97.3	131.2	46.0	118.5	164.5
	779.5	119.9	899.4	754.8	142.1	896.9
Liabilities						
Trade and other payables	-	(4.8)	(4.8)	-	(4.9)	(4.9)
Bank borrowings	-	(279.4)	(279.4)	-	(265.8)	(265.8)
Bonds	(5.3)	(432.7)	(438.0)	(20.0)	(328.7)	(348.7)
Lease liabilities	-	(36.2)	(36.2)	-	(38.3)	(38.3)
	(5.3)	(753.1)	(758.4)	(20.0)	(637.7)	(657.7)

Financial instruments measured at amortised cost

Financial instruments measured at amortised cost, rather than fair value, include cash and cash equivalents, trade and other receivables, investment in SME loans (other), bonds, bank borrowings, lease liabilities and trade and other payables. Due to their short-term nature, the carrying value of each of the above financial instruments approximates to their fair value.

Financial instruments measured at fair value

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

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

The fair value hierarchy has the following levels:

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

	Fair value measurement using					
	30 June 2020			31 December 2019		
	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (level 1)	Significant observable Inputs (level 2)	Significant unobservable inputs (level 3)
	£m	£m	£m	£m	£m	£m
Financial assets						
Trade and other receivables	-	0.2	0.3	-	0.2	-
Investment in SME loans (warehouse)	-	-	321.8	-	-	342.0
Investment in SME loans (securitised)	-	-	419.4	-	-	366.6
Investment in trusts	-	-	3.9	-	-	-
Cash and cash equivalents	33.9	-	-	46.0	-	-
	33.9	0.2	745.4	46.0	0.2	708.6
Financial liabilities						
Bonds	-	-	(5.3)	-	-	(20.0)
	-	-	(5.3)	-	-	(20.0)

The fair value of investment in SME loans (warehouse) has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (warehouse) was £321.8 million at 30 June 2020 (31 December 2019: £342.0 million).

The fair value of investment in SME loans (securitised) represents loan assets in the securitisation vehicles and has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (securitised) was £419.4 million at 30 June 2020 (31 December 2019: £366.6 million).

Bonds represent the unrated tranches of bond liabilities measured at fair value through profit and loss (the rated tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £5.3 million at 30 June 2020 (31 December 2019: £20.0 million).

Investment in trusts represent the Group's investment in the trusts used to fund CBILS loans and is measured at fair value through profit and loss. The fair value has been estimated by discounting future cash flows in relation to the trusts using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in trusts was £3.9 million at 30 June 2020 (31 December 2019: £nil).

Fair value movements on investment in SME loans (warehouse), investment in SME loans (securitised), investments in trusts, and bonds (unrated) are recognised through the profit and loss as part of net income.

A reconciliation of the movement in level 3 financial instruments is shown as follows:

	Investment in SME loans (warehouse) £m	Investment in SME loans (Securitised) £m	Bonds (unrated) £m	Investment in trusts £m	Trade and other receivables £m
Balance as at 1 January 2019	-	-	-	-	-
Additions	673.4	-	(17.1)	-	-
Securitisations	(292.2)	414.5	-	-	-
Repayments	(32.5)	(37.4)	0.7	-	-
Net loss on the change in fair value of financial assets and liabilities at fair value through profit or loss during the period	(0.5)	(5.8)	(3.6)	-	-
Foreign exchange gain	(6.2)	(4.7)	-	-	-
Balance as at 31 December 2019	342.0	366.6	(20.0)	-	-
Additions	289.6	-	-	3.9	-
Securitisations	(221.9)	221.9	-	-	-
Transfers	(0.3)	-	-	-	0.3
Repayments	(63.5)	(108.0)	2.4	-	-
Net (loss)/gain on the change in fair value of financial assets and liabilities at fair value through profit or loss during the period	(35.7)	(72.7)	12.3	-	-
Foreign exchange gain	11.6	11.6	-	-	-
Balance as at 30 June 2020	321.8	419.4	(5.3)	3.9	0.3

Financial risk factors

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash and cash equivalents held at banks. The Group's maximum exposure to credit risk by class of financial asset is as follows:

	30 June 2020 £m	31 December 2019 £m
Non-current		
Investment in SME loans (other)	1.8	1.7
Current		
Investment in SME loans (warehouse)	321.8	342.0
Investment in SME loans (securitised)	419.4	366.6
Investment in trusts	3.8	-
Trade and other receivables		
- Trade receivables	0.8	0.9
- Other receivables	17.5	17.3
- Rent and other deposits	2.9	3.9
Cash and cash equivalent	131.2	164.5
Total gross credit risk exposure	899.2	896.9
Less bank borrowings and bond liabilities	(717.4)	(614.5)
Total net credit risk exposure	181.8	282.4

In addition the Group is subject to financial guarantees it has issued to buy back loans detailed in the loan repayment provision in note 15. The Group's maximum exposure to credit risk on this financial guarantee were every eligible loan required to be bought back would be £34.1 million (31 December 2019: £41.5 million). Investment in SME loans (warehouse) and investment in SME loans (securitised) relate to the underlying pool of SME loans in both the warehouse and securitisation vehicles. Whilst there is credit risk from the loans defaulting, these SME loans and the associated bank debt or third party bonds are held within bankruptcy remote vehicles. If the SME loans were to all default, then the bank debt or third party bonds would not receive their money back. Therefore the overall exposure to the Group for these investments is the Group's net investment in the SME loans which is after taking account of the bank debt and third party bonds.

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

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

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

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

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s position.
The Group’s liquidity position is monitored and reviewed on an ongoing basis by the Directors. As the investments in loan securities held within the ABS warehouses are planned to be securitised within a short time horizon these are classified as current assets.

Interest rate risk
a) Interest rate risk sensitivity analysis – non trading interest (fixed rate)
Interest on investments in SME loans is fixed until the maturity of the investment.

b) Interest rate risk sensitivity analysis – non trading interest (floating rate)
Interest on cash and cash deposit balances are subject to movements in Libor. The Directors monitors interest rate risk and note that interest rates remain at historical low. The Directors believe that any reasonable increase in the Libor rate would not significantly impact the Group.
Interest on borrowings are subject to movements in Libor and the 3 month commercial paper rate, 1 month GBP LIBOR and 3 month USD Libor. However, the Group has taken out interest rate caps to mitigate the risk of interest rate rises.

17. Cash outflow from operations

	30 June 2020 £m	30 June 2019 £m
Loss before taxation	(115.1)	(30.8)
Adjustments for:		
Depreciation of property, plant and equipment	4.6	3.5
Amortisation of intangible assets	3.6	3.6
Impairment of goodwill (exceptional item)	12.0	-
Impairment of tangible assets (exceptional item)	0.4	-
Interest receivable	(0.3)	(1.0)
Interest payable	0.8	0.5
Non-cash employee benefits expense – share based payments and associated social security costs	4.3	4.4
Fair value adjustments	96.1	0.3
Movement in restructuring provision (exceptional item)	2.1	-
Movement in other provisions	4.2	(0.2)
Share of losses of associates	1.1	-
Other non-cash movements	(0.4)	(0.2)
Changes in working capital:		
Movement in trade and other receivables	(18.8)	(4.4)
Movement in trade and other payables	4.8	6.2
Net cash outflow from operating activities	(0.6)	(18.1)

Analysis of changes in liabilities from financing activities

	1 January 2019 £m	Cash flows £m	Exchange movements £m	Other non-cash movements £m	30 June 2019 £m
Bank borrowings	-	(145.5)	(1.3)	-	(146.8)
Lease liabilities	(25.1)	2.8	(1.2)	(0.5)	(24.0)
Liabilities from financing activities	(25.1)	(142.7)	(2.5)	(0.5)	(170.8)

	1 January 2020 £m	Cash flows £m	Exchange movements £m	Other non-cash movements £m	30 June 2020 £m
Bank borrowings	(265.8)	(5.9)	(7.7)	-	(279.4)
Bonds	(348.7)	(89.4)	(11.8)	11.9	(438.0)
Lease liabilities	(38.3)	3.5	(1.5)	0.1	(36.2)
Liabilities from financing activities	**(652.8)**	**(91.8)**	**(21.0)**	**12.0**	**(753.6)**

18. Cash and cash equivalents

	30 June 2020 £m	31 December 2019 £m
Cash and cash equivalents	131.2	164.5

The cash and cash equivalents balance is made up of cash, money market funds and bank deposits. The carrying amount of these assets is approximately equal to the fair value.

Included within cash and cash equivalents above is a total of £58.8 million (31 December 2019: £15.4 million) in cash which is restricted in use. Of this: i) £1.1 million (31 December 2019: £1.2 million) is held in the event of rental payment defaults; ii) £34.0 million (31 December 2019: £14.2 million) is held in the securitisation SPVs which has been collected for payment to bond holders; iii) £22.9 million (31 December 2019: £ nil) is held in the warehouse entities and is for use to repay the loan facilities; iv) £0.8m (31 December 2019: £ nil) is held within Funding Circle Focal Point Limited and is for use to meet operational cash flows related to the trust structures facilitating CBILS funding.

At 30 June 2020, cash equivalents relating to money market funds totalled £33.9 million (31 December 2019: £46.0 million).

19. Related party transactions

The basis of remuneration of key management personnel remains consistent with that disclosed in the 2019 Annual Report and Accounts. There were no other related party transactions which had a material impact on these condensed interim financial statements.

20. Contingent liabilities

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

21. Financial risk management

The Group's financial risks and risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year to 31 December 2019.

22. Subsequent events

In July 2020, the Group sold 95% of its investment of one of the subordinated unrated tranches in the UK Securitisation vehicle, SBOLT 2019-3, for £4.0 million. As the vehicle is consolidated, the Group's holding is eliminated on consolidation. The sale did not result in deconsolidation of the securitisation vehicle, as the variability in cash flows continues to be concentrated in the Group's remaining holding in unrated tranches of the vehicle.

In July, the Group announced that it is reorganising the US business centralising the US technology team in the UK, and moving sales and marketing to Denver, resulting in net reduction of c.85 roles to accelerate its path to profitability. The anticipated cash cost of this reorganisation is anticipated to be c.£2 million.

Glossary

Alternative performance measures

The Group uses a number of alternative performance measures ("APMs") within its financial reporting. These measures are not defined under the requirements of IFRS and may not be comparable with the APMs of other companies. The Group believes these APMs provide stakeholders with additional useful information in providing alternative interpretations of the underlying performance of the business and how it is managed and are used by the Directors and management for performance analysis and reporting. These APMs should be viewed as supplemental to, but not as a substitute for, measures presented in the financial statements which are prepared in accordance with IFRS.

APM	Closest equivalent IFRS measure	Definition and adjustments to reconcile to IFRS measure
Income statement		
Adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA") and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items
Segment adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure.	Adjusted EBITDA before product development and central costs.
Exceptional items	None.	Items which the Group excludes from adjusted EBITDA in order to present a measure of the Group's performance. Each item is considered to be significant in nature or size and is treated consistently between periods. Excluding these items from profit metrics provides the reader with additional performance information on the business across the business as it is consistent with how information is reported to the Board and GLT.
Investment AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Investment AEBITDA refers to net investment income (being investment income, investment expense and fair value adjustments) as previously reported.
Operating AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Operating AEBITDA represents AEBITDA excluding investment AEBITDA
Adjusted earnings/ loss per share	Earnings per share.	Profit/loss after tax attributable to owners of the Parent and before the impact of exceptional items, divided by the weighted average number of ordinary shares in issue during the year
Adjusted diluted earnings/loss per share	Diluted earnings per share.	Profit/loss after tax attributable to owners of the Parent and before the impact of exceptional items, divided by the weighted average number of ordinary shares in issue during the year adjusted for the effects of any potentially dilutive options.
Cash flow		
Free cash flow	Cash generated from operating activities.	Net cash flows from operating activities including the cash cost of purchasing intangible assets, property, plant and equipment, interest received, IPO costs in operating activities and the payment of lease liabilities, i.e. the cash flows excluding the investment and funding of SME loan purchases and capital raising.

Independent review report to Funding Circle Holdings plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Funding Circle Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the 2020 Half Year Results of Funding Circle Holdings plc for the 6 month period ended 30 June 2020. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 30 June 2020;
- the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2020 Half Year Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2020 Half Year Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the 2020 Half Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the 2020 Half Year Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2020 Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
24 September 2020