

VPC SPECIALTY LENDING INVESTMENTS PLC

HALF-YEAR REPORT (UNAUDITED)
FOR THE SIX-MONTH PERIOD TO 30 JUNE 2020

COMPANY NUMBER 9385218

VICTORY PARK
CAPITAL

VPC SPECIALTY LENDING INVESTMENTS PLC

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VPC SPECIALTY LENDING INVESTMENTS PLC

INTRODUCTION

INTRODUCTION TO THE COMPANY

VPC Specialty Lending Investments PLC (the "Company" or "VSL") provides asset-backed lending to emerging and established businesses ("Portfolio Companies") with the goal of building long-term, sustainable income generation. The Company focuses on providing capital to vital segments of the economy, which for regulatory and structural reasons are underserved by the traditional banking industry. These segments include, among others, small business lending, working capital products, consumer finance and real estate. The Company offers shareholders access to a diversified portfolio of opportunistic credit investments originated by non-bank lenders with a focus on the rapidly developing technology-enabled lending sector. Through rigorous diligence and credit monitoring, the Company generates stable income with significant downside protection. The Company is incorporated in the UK, listed on the premium segment of the Official List and admitted to trading on the London Stock Exchange's main market.



CAPITAL STRUCTURE AND NET ASSET VALUE AS AT 30 JUNE 2020 (UNAUDITED)

	AS AT 30 JUNE 2020	AS AT 30 JUNE 2019	AS AT 31 DECEMBER 2019
Total Net Assets attributable to equity shareholders of the Parent Company (on a consolidated basis)	£260,396,391	£299,952,260	£291,479,251
Net Asset Value per Ordinary Share	89.78p	92.23p	93.33p
Ordinary Share price	66.00p	72.20p	78.20p
Discount to Net Asset Value	-26.49%	-21.72%	-16.21%
Total Shareholder Return (based on share price) ¹	-10.49%	-0.78%	12.24%
Net return on ordinary activities after taxation	£(3,457,994)	£11,269,718	£25,643,176
NAV (Cum Income) Return ¹	0.48%	5.73%	11.34%
Revenue Return on ordinary activities after taxation	£15,148,516	£12,287,817	£27,054,994
Revenue Return	6.34%	4.46%	9.83%
Dividends per Ordinary Share ²	4.00p	4.00p	8.00p
Ordinary Shares repurchased (in the period)	(22,266,293)	(34,881,241)	(47,808,578)
Shares in issue (at the end of the period)	290,036,012	325,229,642	312,302,305

All the terms and alternative performance measures above are defined on page 49.

¹Net of issue costs.

²Dividends declared and paid which relate to the period.

VPC SPECIALTY LENDING INVESTMENTS PLC

CHAIRMAN'S STATEMENT

The first six months of this year have witnessed exceptional economic, societal and market turbulence. Governments imposed restrictions to deal with the COVID-19 pandemic, which have led to a significant contraction of economic activity. At the same time, they implemented fiscal and monetary stimulus programmes on a large scale to help cushion the shock of those restrictions. Against this challenging background the Company delivered a revenue return of 6.34%, a capital return of -5.86%, and a total return of 0.48%. The declared quarterly dividends for the first half of the year totalled 4.00 pence per share and were fully covered by the revenue return generated by the Company. This continues to represent the long-term dividend target for the Company.

INVESTMENTS

As at 30 June 2020, the Company was invested in a diversified portfolio of balance sheet investments that continue to deliver strong returns. The investment portfolio consisted of 83% balance sheet loans, 11% equity investments and 6% cash. The revenue returns continued to be in line with expectations, even during the COVID-19 pandemic, as all contractual cash payments during the period were received. However, the Company's capital returns were negatively impacted by unrealised valuation adjustments and increased expected credit loss reserves.

The balance sheet loan portfolio comprised of 19 Portfolio Companies with a weighted average coupon rate (excluding gearing) of 11.26% and the weighted average remaining life of the balance sheet investments was 31 months. Most of the balance sheet investments are delayed draw, floating rate senior secured loans that have equity subordination. The balance sheet investments are backed by underlying collateral consisting of consumer loans, small business loans and other types of collateral. The total expected credit losses as at 30 June 2020, which also includes reserves on the residual marketplace loans, was £15,605,793, up from £9,631,612 as at 31 December 2019 as a result of updating the modelling to reflect a 100% likelihood of a stress scenario. The modelling of the stress scenario was the result of a stringent analysis performed by the Investment Manager with a conservative set of assumptions. The reserve as at 30 June 2020 represented 4.6% of the cost before the expected credit losses.

The equity portfolio comprised 26 investments in Portfolio Companies. Many of the investments were acquired in conjunction with funding the Group's balance sheet loan investments. The equity investments are made up of common stock, preferred stock, warrants and convertible debt. During the period, the Company's returns reflected unrealised reductions in the valuations of the equity portfolio. This is because we use public market comparables to estimate fair market value, and this method resulted in deeper reductions in value due to general market deterioration resulting from the COVID-19 pandemic.

While the macro backdrop for non-traditional credit has been volatile, VPC's risk mitigation measures, the resilience of the portfolio and its performance have been heartening. This performance has differentiated VSL from many of its peers in the investment trust sub-sector.

ANNUAL GENERAL MEETING 2020

In accordance with the Company's Articles of Association, it was necessary to propose at this year's AGM an additional ordinary resolution that the Company continues in existence as an investment company. The proposals for continuation of the Company included both conditions for future continuation votes and returns of capital to shareholders based on NAV performance or share price discount conditions. The continuation resolution was passed at the AGM with 86.6% of shares being voted in favour.

At the AGM there was also a significant minority vote against my reappointment and that of Richard Levy. Accordingly, the Board decided to undertake a shareholder consultation process and also to recruit a new independent director to replace Richard Levy.

The Board is seeking a director with financial acumen who is well seasoned in the investment trust market and has the standing, mindset, and knowledge to be independent and capable of challenge. A candidate from a diversity background would be preferred, but this is not an absolute requirement. The Board will also be seeking a candidate to lead the Audit & Valuation Committee in due course.

Since the AGM, the Board has been consulting major shareholders. During this process, a wide range of constructive suggestions have been made and the Board is actively considering these with a view to taking appropriate action. We hope to make an announcement on both the shareholder consultation and on Board refreshment and succession by the end of October.

SHARE PRICE DISCOUNT MANAGEMENT

During the period, the share price discount to NAV ranged from 11.07% to 54.37%. This continues to be a major concern to both the Board and to shareholders and has been much discussed during the consultation process. The uncertain impact of the COVID-19 pandemic on our investment performance and the outcome of the 2020 continuation vote were the key factors putting pressure on the share price during the period. Since the AGM some shareholders who voted against the continuation vote have sought to sell their shares and this is one of the main reasons for the current share price weakness.

During the period, the Company continued to implement an active share buyback programme. The Company bought back a total of 22,266,293 shares at an average price of 68.67 pence per share, representing 7.13% of the Company's issued shares as at 31 December 2019. A further 6,084,456 shares (1.95% of issued shares as at 31 December 2019) have been bought back from 1 July 2020 to the date of this report.

OUTLOOK

Even during the current economic environment, we are focused on continuing the positive momentum gained through the Company's balance sheet investments and the recent results of the continuation vote. We believe the uncertainty in the economy over the next 12 to 24 months is possibly higher than at any point in our lifetimes, as the COVID-19 pandemic continues to impact economic, societal and health environments on a global scale. We are acutely aware of the continued discount of the Ordinary Share price to NAV and we are determined to continue to use the variety of tools at our disposal to address this. The Investment Manager has built the Company's investment portfolio on expertise in managing credit and performance through multiple

VPC SPECIALTY LENDING INVESTMENTS PLC

CHAIRMAN'S STATEMENT continued

credit cycles along with the processes and systems that have been put in place to monitor risk. The Board and Investment Manager continuously monitor business continuity plans and operational resilience strategies to take all reasonable steps to continue meeting the Company's regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support the Company's shareholders.

As of the date of this report, the existing balance sheet debt portfolio has remained resilient to the macroeconomic stress resulting from the COVID-19 pandemic and have continued to perform, as outlined in the Investment Manager's Report. We believe that the Company's investments are well positioned to sustain any continued volatility or deterioration in the credit environment as the effects of the immediate fiscal stimulus in the U.S. start to be reduced and the long term impacts of the crisis unfold. More detail about the performance of the Company's investments can be found in the Investment Manager's Report.

The Board would like to thank shareholders for their continued support.

Kevin Ingram
Chairman
28 September 2020

VPC SPECIALTY LENDING INVESTMENTS PLC

INVESTMENT MANAGER'S REPORT

SUMMARY

Despite the challenging societal, economic and market activity of the first half of the year, overall, we believe the portfolio is in a strong position as of the release of this report due to the protections structured into the balance sheet investments. The COVID-19 pandemic continued to significantly impact global health, economies and social behaviour. As the world continues to navigate towards a road to recovery, the Investment Manager ("VPC") has adapted to the new environment while closely following the everchanging health rules and regulations, governmental policies and safety guidelines. VPC employees continue to work remotely, following the implementation of VPC's Business Continuity Plan on 12 March 2020. VPC's robust technology systems and resources have enabled us to operate during this period without disruption. We are proud of the work we have done as a team during these unprecedented times, with a specific emphasis on telecommuting since the health and safety of our employees and their families remain most important.

We continue to closely monitor the latest health developments to determine when it will be appropriate to return to our offices. To that point, in July, VPC instated a Pandemic Response Plan which includes defined safety policies and procedures surrounding the action plan if a COVID-19 case is confirmed in our office once we reopen. The plan also includes employee responsibilities, travel policies as well as the current telecommuting policy. An internal Pandemic Response Team ("PRT") has also been formed to help employees navigate through these new policies and procedures. The team focuses on monitoring health metrics and guidance, implementing relevant changes to our policies and procedures as applicable to ensure the safest work environment and diligently communicating the updates to the firm as they are developed.

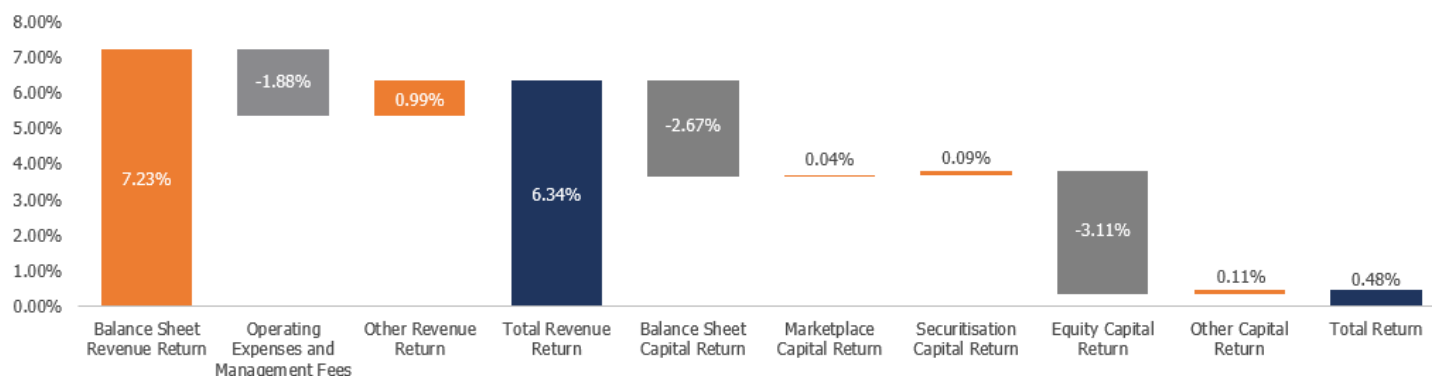
As it relates to portfolio management, we remain focused on proactive risk management and controls across the portfolio and retain a defensive position. Our senior management team continues to hold multiple calls each week and the investment teams are in constant contact with our Portfolio Companies to proactively ensure that they are taking prudent steps to mitigate risk on a real time basis.

PERFORMANCE REVIEW

During the period, the Company generated a total return of 0.48% for shareholders and declared dividends for the period of 4.00 pence per share. The NAV per share as at 30 June 2020 was 89.78p compared to a share price of 66.00p at the end of June, implying a price to NAV discount of 26.49%.

The Company generated gross revenue returns of 7.23%. The other revenue return of 0.99% was made up of interest earned on the Company's outstanding cash balances and the impact of share buybacks. Expenses were -1.88% for a net revenue return of 6.34%. Capital returns were -5.86%, comprising of -2.67% from expected credit losses on the balance sheet investments, 0.13% from the Company's residual marketplace and securitisation investments, -3.11% from equity investments and 0.11% from other capital returns, primarily related to share buybacks offset by the cost of the Company's foreign exchange hedging program, for a net total return of 0.48%.

January to June 2020 Total Return Profile



PORTFOLIO UPDATE

As of the date of this report, the existing balance sheet debt portfolio has continued to perform well through the crisis. Since the beginning of the pandemic, collection performance has exceeded our downside expectations on nearly every portfolio investment and the structural protections built into the transactions have remained resilient to the macroeconomic stress. The underlying credit portfolio is seasoned and has deleveraged with significant levels of cash being generated at the borrower's Special Purpose Vehicle (SPV) as a result of reduced levels of originations combined with the short duration of the underlying portfolios. In addition, we also reduced the gearing ratio of the Company by using repayments on balance sheet facilities to pay down both the non-recourse first out facilities and the Company's Pacific Western Bank facility. Look through gearing reduced during the period to 0.45x at the end of June despite significant buyback activity during the quarter which inherently increases the look-through gearing ratio. Given the above we believe that the portfolio is well positioned to sustain any continued volatility or deterioration in the credit environment as the effects of the immediate fiscal stimulus in the U.S. start to be reduced and the long term impacts of the crisis unfold.

On the existing U.S. consumer portfolio, payment performance has continued to surpass expectations and the deferment population has continued to decline. Another encouraging trend has been the payment performance on borrowers completing a hardship deferment. Across the portfolio we have seen that after completing a deferment, on average approximately 65%-75% of borrowers are getting back on a regular payment schedule, and less than 10% of this population is defaulting on the payment (the difference is largely consumers that are seeking extended deferrals or some form of reduced payment plan).

As we disclosed in our quarterly letters, origination levels at our Portfolio Companies came nearly to a complete halt in the middle of March as the crisis accelerated, and only recently have they returned in any meaningful way. The Portfolio Companies are gradually beginning to restart originations, using

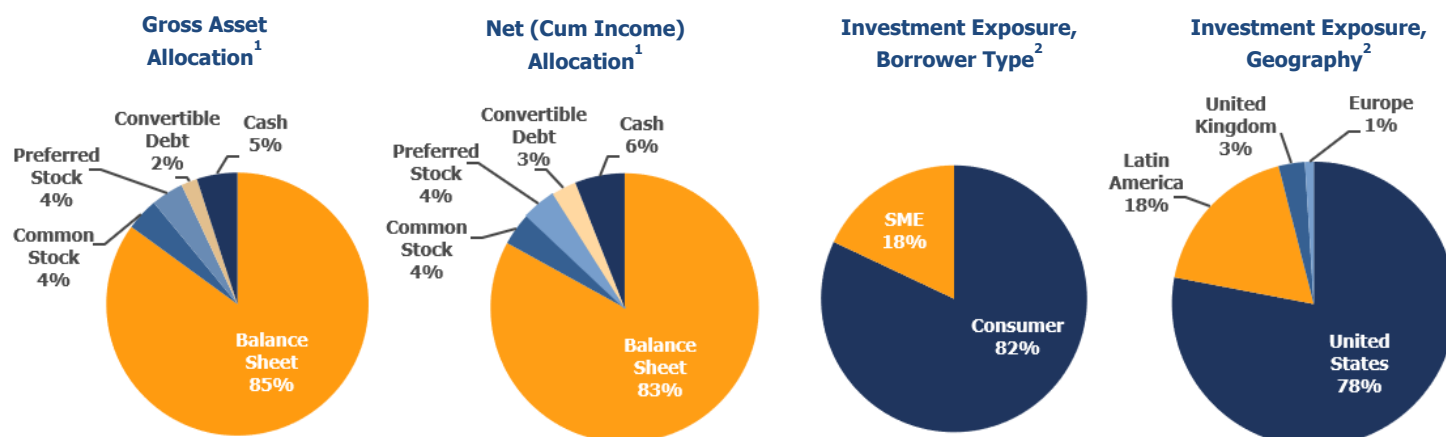
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INVESTMENT MANAGER'S REPORT continued

this time to originate small volumes to test the market and recalibrate underwriting models. Given the rapid changes in unemployment levels, as well as lags in credit reporting and the broad use of payment deferrals for mortgage or rent payments, lenders face unique challenges in underwriting credit for both consumers and small businesses. Common credit metrics such as FICO scores or other data typically used in underwriting can become quickly outdated. To counteract these underwriting challenges companies are adding additional data sources as well as new verification procedures. Compounding this issue is the somewhat surprising effect of there being a significant drop in demand for credit, as consumers across the credit spectrum have continued to pay down debt on an aggregate level. Alternatively, the Company's investments focused on e-commerce purchase finance, which typically involved paying for an item over a three to 14-month period after purchase, have seen an increase in demand as consumers increasingly have moved online for both discretionary and non-discretionary purchases.

PORTFOLIO COMPOSITION

As at 30 June 2020, consumer exposure accounted for 82% of the invested portfolio, while small business exposure accounted for 18%. Investments in US Portfolio Companies accounted for 78% of the invested portfolio, investments in Latin American Portfolio Companies accounted for 18% of the invested portfolio and investments in UK Portfolio Companies accounted for 3%, with the remainder being European exposure. Investments in the balance sheet portfolio accounted for 83% of NAV with equity investments comprising 11% of NAV.



At the end of June 2020, the Company had investments in 36 Portfolio Companies across the US, UK, Europe and Latin America, primarily consisting of balance sheet investments in 19 Portfolio Companies. As part of these investments, the Company has equity exposure to 26 Portfolio Companies through equity securities or convertible notes.

SUMMARY HIGHLIGHTS FOR THE FIRST HALF OF 2020

- ❖ **February 2020:** SVS Opportunity Fund, L.P., an investment vehicle managed by the Investment Manager, acquired 16.61% of the outstanding shares in the Company from a major shareholder and announced that it owned 18.12% of the Company.
- ❖ **February 2020:** The Company declared a dividend of 2.00 pence per share for the three-month period to 31 December 2019.
- ❖ **March 2020:** The Investment Manager released updates regarding the potential impact of COVID-19 and the initial impact of the pandemic on the Company's investment portfolio.
- ❖ **April 2020:** The Company announced it received \$22.2 million of partial paydowns from its Portfolio Companies during the month and used those proceeds, along with other cash, to repay \$25 million of the Pacific Western Bank leverage facility, which could be redrawn in the future.
- ❖ **May 2020:** The Company declared a dividend of 2.00 pence per share for the three-month period to 31 March 2020.
- ❖ **June 2020:** The Company announced that the continuation vote passed with 86.6% of the shares voting in favour of the resolution.

SUBSEQUENT EVENTS

- ❖ **August 2020:** The Company declared a dividend of 2.00 pence per share for the three-month period to 30 June 2020.
- ❖ **September 2020:** From 30 June 2020 through the date of this report, the Company has repurchased 6,084,456 shares at an average price of 65.27 pence per share.

¹Percentages calculated on a look-through basis to the Company's investee entities and SPVs.

²Calculations using gross asset exposure and not reduced for gearing. Excludes cash.

VPC SPECIALTY LENDING INVESTMENTS PLC

INVESTMENT MANAGER'S REPORT continued

RISKS AND UNCERTAINTIES

Although there are several risks and uncertainties, we believe that the most significant include:

- ❖ **Changes in interest rates:** While the Company's investment portfolio primarily consists of floating rate credit facilities with interest rate floors, changes in interest rates could affect our investments, the profitability of the Portfolio Companies and that of the underlying borrowers, potentially leading to lower returns or changes in repayments or default rates of the underlying borrowers. Lower interest rates may also lead to increased refinancing activity.
- ❖ **Potential risk of refinancing:** The Company retains a right of first refusal ("ROFR") to match the credit facility terms offered by any third-party on most of the Company's investments. In an instance where the market pricing and underlying risk for these deals are not in line with the Company's investment objectives, we will not exercise the ROFRs. We have a significant pipeline of undrawn capacity as well as new deal flow that allows us to quickly reinvest the liquidity generated by a potential refinancing event in the near term. The increasingly competitive environment might affect the ability to quickly reinvest capital if this trend continues over the long-term.
- ❖ **Potential credit risk impact from the COVID-19 pandemic:** The majority of the underlying exposure in the Company is to the U.S. consumer. As of the publication of this report, while we have seen modest deterioration in loan performance, it is not as drastic as might have been expected when the pandemic began. Given the short duration of the overall portfolio and reduction of originations, our Portfolio Companies have generated a significant amount of cash, which has either been repaid to the Company as a prepayment on the credit facility or remains at the portfolio company and is directly collateralising our investment. We retain the right, but not the obligation, to redeploy this capital back to the Portfolio Companies on the same terms once the situation stabilises. We will only redeploy capital when we are completely comfortable it will be used prudently and at good risk adjusted yields.
- ❖ **Potential operational risk impact from the COVID-19 pandemic:** The Investment Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis and will take all reasonable steps to continue meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. For example, to enhance its resilience, the Investment Manager has mandated work from home arrangements for all employees. The Company's other third-party service providers have also confirmed the implementation of similar measures to ensure no business disruption.

OUTLOOK

We believe the investment portfolio offers favourable returns relative to other areas of the credit markets while simultaneously carrying lower levels of overall risk, especially in the current economic environment. While we often discuss the underlying credit performance of our balance-sheet investments, it is also important to emphasise that we have additional layers of protection beyond our direct asset security. Due to the structured nature of our balance-sheet investments, including (in most cases) corporate guarantees and significant first-loss protection, our investments are not affected by changes in credit performance until a platform defaults and all corporate resources (separate from our borrowing base of loan collateral) are exhausted. In addition to monitoring the credit performance, we monitor the overall corporate performance of our Portfolio Companies, including attending board meetings as an observer and having weekly update calls with management.

Recently, we have seen demand divergence between the e-commerce purchase finance (sometimes referred to as "Buy Now, Pay Later") subset of our portfolio from other types of receivables we finance. In order to capitalise on this, we have focused our recent pipeline efforts on executing additional transactions in this sector as it meets all our desired credit expectations and there is a clear need for credit from prospective portfolio companies.

We continue to look for and identify other trends that can create either risk in our existing portfolio or create opportunities for investments in the future. In our opinion the dramatic efforts taken by governments and central banks globally has created a relative air pocket in economies around the world, and certainly so in the US. Eventually this government support and stimulus will taper off, and what happens after that is unclear but seems likely to ensure a volatile future over the medium term. We will continue to cautiously deploy capital and at this point we believe the portfolio is well positioned to withstand future changes to come this year and next.

Victory Park Capital Advisors, LLC
Investment Manager
28 September 2020

VPC SPECIALTY LENDING INVESTMENTS PLC

DIRECTORS' RESPONSIBILITY STATEMENT

FOR THE SIX-MONTH PERIOD TO 30 JUNE 2020

The Directors acknowledge responsibility for the Half-Year Financial Report and confirm that to the best of their knowledge:

(a) the consolidated financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and give a true and fair view of the assets, liabilities, financial position and profit for the period of the Group as required by the Disclosure Guidance and Transparency Rules ("DTR") 4.2.4 R;

(b) the Interim Management Report (including the Chairman's Statement and the Investment Manager's Report) includes a fair review of the information required by DTR 4.2.7 R (indication of important events that have occurred during the six-month period to 30 June 2020 and their impact on the set of consolidated financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and

(c) the Half-Year Financial Report includes a fair review of the information concerning related party transactions as required by DTR 4.2.8 R.

Signed on behalf of the Board by:

Kevin Ingram
Chairman
28 September 2020

VPC SPECIALTY LENDING INVESTMENTS PLC

INTERIM MANAGEMENT REPORT

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

CAUTIONARY STATEMENT

This Interim Management Report has been prepared solely to provide additional information to shareholders to assess the strategies of the Company and its subsidiaries (together “the Group”). The Interim Management Report should not be relied on by any other party or for any other purpose.

The Interim Management Report contains certain forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of the Half-Year Financial Report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

ACTIVITIES

The activities of the Group are described in the Chairman’s Statement and in the Investment Manager’s Report. Refer to the Chairman’s Statement on page 4 and the Investment Manager’s Report on pages 6 through 8 of the Half-Year Financial Report. Further refer to Note 1 to the consolidated financial statements.

STRATEGY AND INVESTMENT OBJECTIVES

The important events that have occurred during the period under review and the key factors influencing the consolidated financial statements are described in the Chairman’s Statement and in the Investment Manager’s Report.

Refer to the Chairman’s Statement on page 4 and the Investment Manager’s Report on pages 6 through 8 of the Half-Year Financial Report.

GOING CONCERN

As stated in Note 2 to the consolidated financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period not less than 12 months from the date of this Half-Year Report. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group’s performance over the remaining six months of the financial period and could cause actual results to differ materially from expected and historical results. Refer to the Investment Manager’s Report on pages 6 through 8 of the Half-Year Financial Report as well as Note 5 to the consolidated financial statements for the potential risks and uncertainties. The principal risks and uncertainties are consistent with those disclosed in the Annual Report for the year ended 31 December 2019 which can be found on the Company’s website.

FINANCIAL PERFORMANCE

The financial and operational highlights of the Group can be found on page 3 of the Half-Year Financial Report.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 13 to the consolidated financial statements.

VPC SPECIALTY LENDING INVESTMENTS PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	NOTE	(UNAUDITED) 30 JUNE 2020 £	(UNAUDITED) 30 JUNE 2019 £	(AUDITED) 31 DECEMBER 2019 £
Assets				
Cash and cash equivalents		14,835,744	5,711,644	6,131,122
Cash posted as collateral		1,100,000	23,616	980,000
Derivative financial assets		1,416,582	2,184,348	3,985,365
Interest receivable		4,182,426	4,218,337	5,230,350
Dividend and distribution receivable		15,138	42,811	19,372
Other assets and prepaid expenses		1,121,703	845,493	894,157
Loans at amortised cost	3,7	318,953,868	365,060,505	352,910,880
Investment assets designated as held at fair value through profit or loss	3	39,092,920	54,388,363	42,502,134
Total assets		380,718,381	432,475,117	412,653,380
Liabilities				
Management fee payable	8	66,156	165,777	143,415
Performance fee payable	8	-	4,895,679	7,410,614
Derivative financial liabilities		155,933	-	-
Unsettled share buyback payable		229,947	105,898	52,506
Deferred income		329,321	656,600	490,322
Other liabilities and accrued expenses	8	1,305,245	1,254,502	1,349,263
Notes payable	6	118,132,012	125,353,998	111,667,069
Total liabilities		120,218,614	132,432,454	121,113,189
Total assets less total liabilities		260,499,767	300,042,663	291,540,191
Capital and reserves				
Called-up share capital	11	20,300,000	20,300,000	20,300,000
Share premium account		161,040,000	161,040,000	161,040,000
Other distributable reserve		121,391,830	146,667,123	136,682,176
Capital reserve		(68,018,577)	(48,921,393)	(49,374,355)
Revenue reserve		24,472,138	19,602,445	21,623,852
Currency translation reserve		1,211,000	1,264,085	1,207,578
Total equity attributable to equity shareholders of the Parent Company		260,396,391	299,952,260	291,479,251
Non-controlling interests	15	103,376	90,403	60,940
Total equity		260,499,767	300,042,663	291,540,191
Net Asset Value per Ordinary Share	9	89.78p	92.23p	93.33p

These consolidated financial statements of VPC Specialty Lending Investments PLC registered number 9385218 were approved and authorised for issue by the Board and signed on its behalf by:

Kevin Ingram
Chairman
28 September 2020

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	NOTE	(UNAUDITED) REVENUE £	(UNAUDITED) CAPITAL £	(UNAUDITED) TOTAL £
Revenue				
Net gain (loss) on investments	4	-	(9,532,461)	(9,532,461)
Foreign exchange gain (loss)		-	(1,662,430)	(1,662,430)
Interest income		21,342,243	58,353	21,400,596
Other income	4	1,014,268	-	1,014,268
Total return		22,356,511	(11,136,538)	11,219,973
Expenses				
Management fee	8	1,798,060	-	1,798,060
Performance fee	8	-	-	-
Credit impairment losses	7	-	7,304,791	7,304,791
Other expenses		1,123,033	165,181	1,288,214
Total operating expenses		2,921,093	7,469,972	10,391,065
Finance costs		4,286,902	-	4,286,902
Net return on ordinary activities before taxation		15,148,516	(18,606,510)	(3,457,994)
Taxation on ordinary activities		-	-	-
Net return on ordinary activities after taxation		15,148,516	(18,606,510)	(3,457,994)
Attributable to:				
Equity shareholders		15,148,516	(18,644,222)	11,149,760
Non-controlling interests		-	37,712	37,712
Return per Ordinary Share (basic and diluted)		4.97p	-6.11p	-1.15p
Other comprehensive income				
Currency translation differences		-	8,146	8,146
Total comprehensive income		15,148,516	(18,598,364)	(3,449,848)
Attributable to:				
Equity shareholders		15,148,516	(18,640,800)	(3,492,284)
Non-controlling interests		-	42,436	42,436

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations.

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	NOTE	(UNAUDITED) REVENUE £	(UNAUDITED) CAPITAL £	(UNAUDITED) TOTAL £
Revenue				
Net gain (loss) on investments	4	-	1,987,626	1,987,626
Foreign exchange gain (loss)		-	(2,651,535)	(2,651,535)
Interest income		20,848,744	290,854	21,139,598
Other income	4	1,496,322	-	1,496,322
Total return		22,345,066	(373,055)	21,972,011
Expenses				
Management fee	8	1,776,871	-	1,776,871
Performance fee	8	4,895,679	-	4,895,679
Credit impairment losses	7	-	560,492	560,492
Other expenses		1,043,331	84,552	1,127,883
Total operating expenses		7,715,881	645,044	8,360,925
Finance costs		2,341,368	-	2,341,368
Net return on ordinary activities before taxation		12,287,817	(1,018,099)	11,269,718
Taxation on ordinary activities		-	-	-
Net return on ordinary activities after taxation		12,287,817	(1,018,099)	11,269,718
Attributable to:				
Equity shareholders		12,287,817	(1,138,057)	11,149,760
Non-controlling interests		-	119,958	119,958
Return per Ordinary Share (basic and diluted)		3.54p	-0.33p	3.21p
Other comprehensive income				
Currency translation differences		-	18,862	18,862
Total comprehensive income		12,287,817	(999,237)	11,288,580
Attributable to:				
Equity shareholders		12,287,817	(1,122,439)	11,165,378
Non-controlling interests		-	123,202	123,202

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations.

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	(AUDITED) REVENUE £	(AUDITED) CAPITAL £	(AUDITED) TOTAL £
Revenue				
Net gain (loss) on investments	4	-	5,736,103	5,736,103
Foreign exchange gain (loss)		-	(4,998,319)	(4,998,319)
Interest income		43,342,988	504,443	43,847,431
Other income	4	3,315,944	-	3,315,944
Total return		46,658,932	1,242,227	47,901,159
Expenses				
Management fee	8	3,604,121	-	3,604,121
Performance fee	8	7,411,745	-	7,411,745
Credit impairment losses	7	-	2,402,296	2,402,296
Other expenses		2,094,282	251,749	2,346,031
Total operating expenses		13,110,148	2,654,045	15,764,193
Finance costs		6,493,790	-	6,493,790
Net return on ordinary activities before taxation		27,054,994	(1,411,818)	25,643,176
Taxation on ordinary activities		-	-	-
Net return on ordinary activities after taxation		27,054,994	(1,411,818)	25,643,176
Attributable to:				
Equity shareholders		27,054,994	(1,591,019)	25,463,975
Non-controlling interests		-	179,201	179,201
Return per Ordinary Share (basic and diluted)		8.11p	-0.48p	7.63p
Other comprehensive income				
Currency translation differences		-	(56,156)	(56,156)
Total comprehensive income		27,054,994	(1,467,974)	25,463,975
Attributable to:				
Equity shareholders		27,054,994	(1,631,908)	25,423,086
Non-controlling interests		-	163,934	163,934

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations.

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	(UNAUDITED) CALLED-UP SHARE CAPITAL £	(UNAUDITED) SHARE PREMIUM ACCOUNT £	(UNAUDITED) OTHER DISTRIBUTABLE RESERVE £	(UNAUDITED) CAPITAL RESERVE £	(UNAUDITED) REVENUE RESERVE £	(UNAUDITED) CURRENCY TRANSLATION RESERVE £	(UNAUDITED) TOTAL SHAREHOLDERS' EQUITY £	(UNAUDITED) NON- CONTROLLING INTERESTS £	(UNAUDITED) TOTAL EQUITY £
Opening balance at 1 January 2020	20,300,000	161,040,000	136,682,176	(49,374,355)	21,623,852	1,207,578	291,479,251	60,940	291,540,191
Amounts paid on buyback of Ordinary Shares	-	-	(15,290,346)	-	-	-	(15,290,346)	-	(15,290,346)
Contributions by non-controlling interests	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	-
Return on ordinary activities after taxation	-	-	-	(18,644,222)	15,148,516	-	(3,495,706)	37,712	(3,457,994)
Dividends declared and paid	-	-	-	-	(12,300,230)	-	(12,300,230)	-	(12,300,230)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	3,422	3,422	4,724	8,146
Closing balance at 30 June 2020	20,300,000	161,040,000	121,391,830	(68,018,577)	24,472,138	1,211,000	260,396,391	103,376	260,499,767

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	(UNAUDITED) CALLED-UP SHARE CAPITAL £	(UNAUDITED) SHARE PREMIUM ACCOUNT £	(UNAUDITED) OTHER DISTRIBUTABLE RESERVE £	(UNAUDITED) CAPITAL RESERVE £	(UNAUDITED) REVENUE RESERVE £	(UNAUDITED) CURRENCY TRANSLATION RESERVE £	(UNAUDITED) TOTAL SHAREHOLDERS' EQUITY £	(UNAUDITED) NON- CONTROLLING INTERESTS £	(UNAUDITED) TOTAL EQUITY £
Opening balance at 1 January 2019	20,300,000	161,040,000	171,731,558	(47,783,336)	21,196,678	1,248,467	327,733,367	246,346	327,979,713
Amounts paid on buyback of Ordinary Shares	-	-	(25,064,435)	-	-	-	(25,064,435)	-	(25,064,435)
Contributions by non-controlling interests	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	(279,145)	(279,145)
Return on ordinary activities after taxation	-	-	-	(1,138,057)	12,287,817	-	11,149,760	119,958	11,269,718
Dividends declared and paid	-	-	-	-	(13,882,050)	-	(13,882,050)	-	(13,882,050)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	15,618	15,618	3,244	18,862
Closing balance at 30 June 2019	20,300,000	161,040,000	146,667,123	(48,921,393)	19,602,445	1,264,085	299,952,260	90,403	300,042,663

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
FOR THE YEAR ENDED 31 DECEMBER 2019

	(AUDITED) CALLED-UP SHARE CAPITAL £	(AUDITED) SHARE PREMIUM ACCOUNT £	(AUDITED) OTHER DISTRIBUTABLE RESERVE £	(AUDITED) CAPITAL RESERVE £	(AUDITED) REVENUE RESERVE £	(AUDITED) CURRENCY TRANSLATION RESERVE £	(AUDITED) TOTAL SHAREHOLDERS' EQUITY £	(AUDITED) NON- CONTROLLING INTERESTS £	(AUDITED) TOTAL EQUITY £
Opening balance at 1 January 2019	20,300,000	161,040,000	171,731,558	(47,783,336)	21,196,678	1,248,467	327,733,367	246,346	327,979,713
Amounts paid on buyback of Ordinary Shares	-	-	(35,049,382)	-	-	-	(35,049,382)	-	(35,049,382)
Contributions by non-controlling interests	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	(349,340)	(349,340)
Return on ordinary activities after taxation	-	-	-	(1,591,019)	27,054,994	-	25,463,975	179,201	25,643,176
Dividends declared and paid	-	-	-	-	(26,627,820)	-	(26,627,820)	-	(26,627,820)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	(40,889)	(40,889)	(15,267)	(56,156)
Closing balance at 31 December 2019	20,300,000	161,040,000	136,682,176	(49,374,355)	21,623,852	1,207,578	291,479,251	60,940	291,540,191

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	(UNAUDITED) 30 JUNE 2020 £	(UNAUDITED) 30 JUNE 2019 £	(AUDITED) 31 DECEMBER 2019 £
Cash flows from operating activities:			
Total comprehensive income	(3,449,848)	11,288,580	25,587,020
Adjustments for:			
- Interest income	(21,400,596)	(21,139,598)	(43,847,431)
- Dividend and distribution income	(1,014,268)	(1,496,322)	(3,315,944)
- Finance costs	4,286,902	2,341,368	6,493,790
- Exchange (gains) losses	1,662,430	2,651,535	4,998,319
Total	(19,915,380)	(6,354,437)	(10,084,246)
Gain on investment assets designated as held at fair value through profit or loss	9,532,461	2,083,558	(5,736,103)
Gain (loss) on derivative financial instruments	(20,749,369)	(1,414,019)	1,538,401
Increase in other assets and prepaid expenses	(227,546)	(72,744)	(121,408)
Increase (decrease) in management fee payable	(77,259)	12,476	(9,886)
Increase (decrease) in performance fee payable	(7,410,614)	2,617,333	5,133,399
Increase (decrease) in deferred income	(161,001)	112,015	(54,263)
Decrease in accrued expenses and other liabilities	(629,895)	(331,301)	(213,289)
Interest received	22,448,520	20,397,914	42,093,734
Purchase of loans	(64,081,377)	(118,797,805)	(200,508,718)
Redemption or sale of loans	114,742,276	59,957,961	139,390,856
Impairment of loans	7,304,791	560,492	2,402,296
Net cash inflow (outflow) from operating activities	40,775,607	(41,228,557)	(26,169,227)
Cash flows from investing activities:			
Investment income received	1,018,502	2,072,551	3,915,612
Purchase of investment assets designated as held at fair value through profit or loss	(6,322,262)	(8,716,424)	(12,961,327)
Sale of investment assets designated as held at fair value through profit or loss	3,275,979	22,975,781	41,016,344
Increase (decrease) of cash posted as collateral	(120,000)	2,258,812	1,302,428
Net cash inflow (outflow) from investing activities	(2,147,781)	18,590,720	33,273,057

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC
CONSOLIDATED STATEMENT OF CASH FLOWS continued
 FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

	(UNAUDITED) 30 JUNE 2020 £	(UNAUDITED) 30 JUNE 2019 £	(AUDITED) 31 DECEMBER 2019 £
Cash flows from financing activities:			
Dividends distributed	(12,300,230)	(13,882,050)	(26,627,820)
Treasury shares repurchased	(15,112,905)	(24,958,537)	(34,996,876)
Distributions to non-controlling interests	-	(279,145)	(349,340)
Decrease in amounts payable under agreements to repurchase	-	(1,335,644)	(1,335,644)
Increase (decrease) in note payable	(1,641,963)	73,201,232	64,925,378
Finance costs paid	(3,701,025)	(1,744,049)	(5,920,853)
Net cash inflow (outflow) from financing activities	(32,756,123)	31,001,807	(4,305,155)
Net change in cash and cash equivalents	5,871,703	8,363,970	2,798,675
Exchange gains (losses) on cash and cash equivalents	2,832,919	(5,921,658)	63,115
Cash and cash equivalents at the beginning of the period	6,131,122	3,269,332	3,269,332
Cash and cash equivalents at the end of the period	14,835,744	5,711,644	6,131,122

See notes to the consolidated financial statements

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

1. GENERAL INFORMATION

VPC Specialty Lending Investments PLC (the “Parent Company”) with its subsidiaries (together “the Group”) is focused on asset-backed lending to emerging and established businesses with the goal of building long-term, sustainable income generation. The Company identifies investment opportunities across various industries and geographies to offer shareholders access to a diversified portfolio of opportunistic credit investments originated by non-bank lenders with a focus on the rapidly developing technology-enabled lending sector. The Parent Company was incorporated in England and Wales on 12 January 2015 with registered number 9385218. The Parent Company commenced its operations on 17 March 2015 and intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

The Group’s investment manager is Victory Park Capital Advisors, LLC (the “Investment Manager”), a US Securities and Exchange Commission registered investment adviser. The Investment Manager also acts as the Alternative Investment Fund Manager of the Group under the Alternative Investment Fund Managers Directive (“AIFMD”). The Parent Company is defined as an Alternative Investment Fund and is subject to the relevant articles of the AIFMD.

The Group will invest directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third party funds (including those managed by the Investment Manager or its affiliates). Direct investments may include consumer loans, SME loans, advances against corporate trade receivables and/or purchases of corporate trade receivables (“Debt Instruments”) originated by platforms which engage with and directly lend to borrowers (“Portfolio Companies”). Such Debt Instruments may be subordinated in nature, or may be second lien, mezzanine or unsecured loans. Indirect investments may include investments in Portfolio Companies (or in structures set up by Portfolio Companies) through the provision of credit facilities (“Credit Facilities”), equity or other instruments. Additionally, the Group’s investments in Debt Instruments and Credit Facilities may be made through subsidiaries of the Company or through partnerships or other structures. The Group may also invest in other specialty lending related opportunities through any combination of debt facilities, equity or other instruments.

As at 30 June 2020, the Company had total issued equity in the form of 382,615,665 Ordinary Shares (31 December 2019: 382,615,665; 30 June 2019: 382,615,665) of which 290,036,012 were outstanding (31 December 2019: 312,302,305; 30 June 2019: 325,229,642) and 92,579,653 were held as treasury shares (31 December 2019: 70,313,360; 30 June 2019: 57,386,023). These shares are listed on the premium segment of the Official List of the Financial Conduct Authority and trade on the London Stock Exchange’s main market for listed securities.

Northern Trust Hedge Fund Services LLC (the “Administrator”) has been appointed as the administrator of the Group. The Administrator is responsible for the Group’s general administrative functions, such as the calculation and publication of the Net Asset Value (“NAV”) and maintenance of the Group’s accounting records.

For any terms not herein defined, refer to Part X of the IPO Prospectus. The Parent Company’s IPO Prospectus dated 26 February 2015 is available on the Parent Company’s website, www.vpcspecialtylending.com. The audited financial statement information contained within the consolidated financial statements are also available on the Parent Company’s website.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below:

Basis of preparation

The consolidated financial statements present the financial performance of the Group for the six-month period to 30 June 2020. These statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as adopted by the European Union.

The consolidated financial statements for the period ended 30 June 2020 have not been audited or reviewed by the Group’s auditors and do not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. They do not include all financial information required for full annual financial statements. The consolidated financial statements and the comparative financial statements have been prepared using the accounting policies adopted in the audited financial statements for the year ended 31 December 2019.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the valuation of investments and derivative financial instruments at fair value. The Directors have reviewed the financial projections of the Group and Company from the date of this report, which shows that the Group and Company will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. In assessing the Group’s and Company’s ability to continue as a going concern, the Directors have considered the Company’s investment objective, risk management policies, capital management, the nature of its portfolio and expenditure projections.

Additionally, the Directors have considered the risks arising of reduced asset values and economic disruption caused by the COVID-19 pandemic. The Investment Manager has also performed a range of stress tests and demonstrated to the Directors that even in an adverse scenario of depressed markets that the Group could still generate sufficient funds to meet its liabilities over the next twelve months. The Directors believe that the Group has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future being a period of at least twelve months from the date of this report. Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements. The principal accounting policies adopted are set out below.

Where presentational guidance set out in the Statement of Recommended Practice (“SORP”) for investment trusts issued by the Association of Investment Companies (“AIC”) in November 2014 and updated in October 2019 with consequential amendments is consistent with the requirements of IFRS, the Directors have sought to prepare the consolidated financial statements on a basis compliant with the recommendations of the SORP.

The Parent Company and Group’s presentational currency is Pound Sterling (£). Pound Sterling is also the functional currency because it is the currency of the Parent Company’s share capital and the currency which is most relevant to the majority of the Parent Company’s shareholders. The Group enters into forward currency Pound Sterling hedges where operating activity is transacted in a currency other than the functional currency.

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and its subsidiaries. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Parent Company controls an entity when the Parent Company is exposed to, or has rights to, variable returns from its investment and has the ability to affect those returns through its power over the entity. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The accounting policies of the subsidiaries have been applied on a consistent basis to ensure consistency with the policies adopted by the Parent Company. The period ends for the subsidiaries are consistent with the Parent Company.

Subsidiaries of the Parent Company, where applicable, have been consolidated on a line by line basis as the Parent Company does not meet the definition of an investment entity under IFRS 10 because it does not measure and evaluate the performance of all its investments on the fair value basis of accounting.

Investments in subsidiaries

Investments in subsidiaries are carried at cost less impairment. The Parent Company assesses at each balance sheet date whether, as a result of one or more events that occurred after initial recognition, there is objective evidence that investments in subsidiaries are impaired. Investments in subsidiaries are non-monetary items and therefore, the costs of investment in currencies other than Pound Sterling are translated to at the rate of exchange ruling on the date the investment is made.

Presentation of Consolidated Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with the guidance set out by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income.

Income

For financial instruments measured at amortised cost, the effective interest rate method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense in the revenue account over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all fees received and paid, costs borne that are an integral part of the effective interest rate and all other premiums or discounts above or below market rates.

Dividend income from investments is taken to the revenue account on an ex-dividend basis. Bank interest and other income receivable is accounted for on an effective interest basis. Dividend income from investments is reflected in Other income on the Statement of Comprehensive Income. Further disclosure can be found in Note 4.

Distributions from investments in funds are accounted for on an accrual basis as of the date the Group is entitled to the distribution. The income is treated as revenue return provided that the underlying assets of the investments comprise solely income generating loans, or investments in lending platforms which themselves generate net interest income. Distributions from investments in funds is reflected in Other income on the Statement of Comprehensive Income. Further disclosure can be found in Note 4.

Interest income from Investment assets designated as held at fair value through profit or loss are reflected in Other income on the Statement of Comprehensive Income. Further disclosure can be found in Note 4.

In the instance where the retained earnings of the Parent Company's investment in a subsidiary are negative, all income from that investment is allocated to the capital reserve for both the Group and the Parent Company.

Finance costs

Finance costs are recognised using the effective interest rate method. The Group currently charges all finance costs to either revenue or capital based on retained earnings of the investment that generates the fees from the perspective of the Parent Company.

Expenses

Expenses not directly attributable to generating a financial instrument are recognised as services are received, or on the performance of a significant act which means the Group has become contractually obligated to settle those amounts.

The Group currently charges all expenses, including investment management fees and performance fees, to either revenue or capital based on the retained earnings of the investment that generates the fees from the perspective of the Parent Company. All operating expenses of the Parent Company are charged to revenue as the current expectation is that the majority of the Group and Parent Company's return will be generated through revenue rather than capital gains on investments.

At 30 June 2020, no management fees (31 December 2019: £nil; 30 June 2019: £nil) have been charged to the capital return of the Group. Refer to Note 8 for further details of the management and performance fees.

All expenses are accounted for on an accrual basis.

Dividends payable to shareholders

Dividends payable to shareholders are recognised in the Consolidated Statement of Changes in Equity when they are paid or have been approved by

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

shareholders in the case of a final dividend and become a liability to the Parent Company.

Taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date.

In line with the recommendations of SORP for investment trusts issued by the AIC, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Consolidated Statement of Comprehensive Income is the "marginal basis".

Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Consolidated Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Investment trusts which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

Financial assets and financial liabilities

The Group classifies its financial assets and financial liabilities in one of the following categories below. The classification depends on the purpose for which the financial assets and liabilities were acquired. The classification of financial assets and liabilities are determined at initial recognition.

IFRS 9 contains a classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains a principal-based approach and applies one classification approach for all types of financial assets. For Debt Instruments, two criteria are used to determine how financial assets should be classified and measured:

- ❖ The entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and
- ❖ The contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"):

- ❖ It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ❖ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described further in this note.

A financial asset is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated as at FVTPL:

- ❖ It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ❖ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Movements in the carrying amount are taken through the Other Comprehensive Income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the investments amortised cost which is recognised in the Consolidated Statement of Comprehensive Income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Consolidated Statement of Comprehensive Income and recognised in Income. Interest income from these financial assets is included in Income using the effective interest rate method ("ERIM").

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to the Consolidated Statement of Comprehensive Income. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. All equity positions are measured at FVTPL. Financial assets measured at FVTPL are recognised in the Consolidated Statement of Financial Position at their fair value. Fair value gains and losses, together with interest coupons and dividend income, are recognised in the Consolidated Statement of Comprehensive Income within net trading income in the period in which they occur. The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active, the Group establishes a fair value by using valuation techniques. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

There are no positions measured at FVOCI in the current or prior period.

Business model assessment

The Group will assess the objective of the business model in which a financial asset is held at a portfolio level in order to generate cash flows because this best reflects the way the business is managed, and information is provided to the Investment Manager. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable, then the financial assets are classified as part of the other business model and measured at FVTPL.

The information that will be considered by the Group in determining the business model includes:

- ❖ The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether the strategy focuses on

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

- ❖ Past experience on how the cash flows for these assets were collected;
- ❖ How the performance of the portfolio is evaluated and reported to the Investment Manager;
- ❖ The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- ❖ The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Investment Manager's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the contractual terms of the instrument will be considered to see if the contractual cash flows are consistent with a basic lending arrangement. In making the assessment, the following features will be considered:

- ❖ Contingent events that would change the amount and timing of cash flows;
- ❖ Prepayment and extension terms;
- ❖ Terms that limit the Company's claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- ❖ Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification that has taken place forms the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Expected credit loss allowance for financial assets measured at amortised cost

The Credit impairment losses in the Consolidated Statement of Comprehensive Income includes the change in expected credit losses which are recognised for loans and advances to customers, other financial assets held at amortised cost and certain loan commitments.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The measurement of expected credit losses will primarily be based on the product of the instrument's probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate ("EIR").

- ❖ The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- ❖ EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- ❖ LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The estimated credit loss ("ECL") is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

General expectations with regards to expected losses on loans at a given level of delinquency are assessed based on (a) an analysis of loan collateral and credit enhancement (for collateralised balance sheet investments), and (b) historical roll rates on the marketplace loans (marketplace loans). Impairments are recognised once a loan is deemed to have a non-trivial likelihood of facing a material loss. The expected credit loss allowance reflects the increasing likelihood of loss as (a) collateral and credit enhancement become diminished or impaired (for collateralised balance sheet investments), or (b) loans progress to more advanced stages of delinquency (marketplace loans) as more payments

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are missed and are calculated based on historical performance of similar loans within the Group's investment portfolio. As loans progress through the levels of delinquency, the Group applies a greater amount of expected credit loss allowance on the loan balance.

Unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. The Group does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk. The assessment as to when a financial asset has experienced a significant increase in the probability of default requires the application of management judgement.

In addition, the Group considers a financial instrument to have experienced a significant increase in credit risk when one of the following have occurred:

- ❖ Significant increase in credit spread;
- ❖ Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- ❖ Actual or expected forbearance or restructuring;
- ❖ Actual or expected significant adverse change in operating results of the borrower;
- ❖ Significant change in collateral value which is expected to increase the risk of default; or
- ❖ Early signs of cashflow or liquidity problems.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. Assets can move in both directions through the stages of the impairment model.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due which the Group does not rebut. For both collateralised balance sheet loans and marketplace loans, if a loan is delinquent for more than 90 days, has four missed payments or considered by management as unlikely to pay their obligations in full without realisation of collateral, the Group reserves at least 85% of the balance of the delinquent loan. A loan is normally written off, either partially or in full, when there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded. The Company assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. In performing such analysis, the Company assesses the probability of default based on the level of collateral and credit enhancement (collateralised balance sheet loans) and on the number of days past due, using recent historical rates of default on loan portfolios with credit risk characteristics similar to those of the Company or past history if sufficient data is available to demonstrate a reliable loss profile (marketplace loans).

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Under IFRS 9, when determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on historical experience, credit assessment and forward-looking information is used.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forward-looking information. A "base case" view of the future direction of relevant economic variables and a representative range of other possible forecasts scenarios. The process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome. The base case will represent a most likely outcome and be aligned with information used for other purposes, such as strategic planning and budgeting. The number of scenarios used and their attributes are reassessed at each reporting date by investment. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The estimation and application of forward-looking information requires significant judgement. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances, are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Collateral and other credit enhancements

The Group employs a range of policies to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies of the acceptability of specific classes of collateral or credit risk mitigation.

Modification of financial assets

The Group sometimes modifies the terms or loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

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Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practice are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original assets. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2.

Modification of terms is not an indicator of a change in risk.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- ❖ If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- ❖ Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affect the risk profile of the loan;
- ❖ Significant extension of the loan term when the borrower is not in financial difficulty;
- ❖ Significant change in the interest rate;
- ❖ Change in the currency the loan is denominated in; and
- ❖ Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining if a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amounts are also recognised in the Consolidated Statement of Comprehensive Income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the Consolidated Statement of Comprehensive Income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than a modification

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

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- ❖ Has no obligation to make payments unless it collects equivalent amounts from the assets;
- ❖ Is prohibited from selling or pledging the assets; and
- ❖ Has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

Financial assets and financial liabilities designated as held at fair value through profit or loss

This category consists of forward foreign exchange contracts, common equity, preferred stock, warrants and investments in funds.

Assets and liabilities in this category are carried at fair value. The fair values of derivative instruments are estimated using discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

Investments in funds are carried at fair value through profit or loss and designated as such at inception. This is valued for the units at the balance sheet date based on the NAV where it is assessed that NAV equates to fair value.

Common equity, preferred stock and warrants are valued using a variety of techniques. These techniques include market comparables, discounted cash flows, yield analysis, and transaction prices. Refer to Note 3.

Gains and losses arising from the changes in the fair values are recognised in the Consolidated Statement of Comprehensive Income.

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Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loan assets are classified as loans and receivables.

Loans are recognised when the funds are advanced to borrowers. Loans and receivables are carried at amortised cost using the effective interest rate method less provisions for impairment.

Purchases and sales of financial assets

Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value estimation

The determination of fair value of investments requires the use of accounting estimates and assumptions that could cause material adjustment to the carrying value of those investments.

Financial liabilities

Borrowings, deposits, debt securities in issue and subordinated liabilities, if any, are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

Derivatives

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risks and are not used for speculative purposes.

Derivatives are carried at fair value with movements in fair values recorded in the Consolidated Statement of Comprehensive Income. Derivative financial instruments are valued using discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

Gains and losses arising from derivative instruments are credited or charged to the Consolidated Statement of Comprehensive Income. Gains and losses of a revenue nature are reflected in the revenue column and gains and losses of a capital nature are reflected in the capital column. Gains and losses on forward foreign exchange contracts are reflected in Foreign exchange gain/(loss) in the Consolidated Statement of Comprehensive Income.

All derivatives are classified as assets where the fair value is positive and liabilities where the fair value is negative. Where there is the legal ability and intention to settle net, then the derivative is classified as a net asset or liability, as appropriate.

Securities sold under agreement to repurchase

The Group entered into an agreement with a third party to sell its ownership of an equity security under an agreement to repurchase the equity security from the third party at a future date. The Group is entitled to receive an amount equal to all income paid or distributed in respect of the equity security to the full extent it would be so entitled if the equity security had not been sold to the third party. The Group is obligated to pay the third-party monthly interest.

The underlying value of the repurchase agreement is valued under the sole discretion of the third party. Reductions in the value of the repurchase agreement could require the Group to make margin calls up to the value of the repurchase agreement purchase price. No margin was called during the year. On 15 January 2019, the repurchase agreement was repaid.

Securities sold under agreements to repurchase are accounted for at fair value based on the maximum of their purchase price or the current broker bid price on the sold security.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Investments in funds

Investments in funds are measured at fair value through profit or loss. Fair value through profit or loss is determined using the NAV of the fund. The NAV is the value of all the assets of the fund less its liabilities to creditors (including provisions for such liabilities) determined in accordance with applicable accounting standards. Refer to Note 3.

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Equity securities

Equity securities are measured at fair value. These securities are considered either Level 1 or Level 3 investments. Further details of the valuation of equity securities are included in Note 3. Equity securities consist of common and preferred stock, warrants and convertible note investments.

Other receivables

Other receivables do not carry interest and are short-term in nature and are accordingly recognised at fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with a maturity of 90 days or less that are readily convertible to known amounts of cash.

Deferred income

The Group and Parent Company defer draw fees received from investments and the deferred fees amortise into income on a straight-line basis over the life of the loan, which approximates the effective interest rate method.

Other liabilities

Other liabilities and accrued expenses are not interest-bearing and are stated at their nominal values. Due to their short-term nature this is determined to be equivalent to their fair value.

Share Capital

The Ordinary Shares are classified as equity. The costs of issuing or acquiring equity are recognised in equity (net of any related income tax benefit), as a reduction of equity on the condition that these are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

The costs of an equity transaction that is abandoned are recognised as an expense. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.

The Group's equity NAV per share is calculated by dividing the equity – net assets attributable to the holder of shares by the total number of outstanding Ordinary Shares.

Treasury Shares have no entitlements to vote and are held by the Company.

Foreign exchange

Transactions in foreign currencies are translated into Pound Sterling at the rate of exchange ruling on the date of each transaction. Monetary assets, liabilities and equity investments in foreign currencies at the Consolidated Statement of Financial Position date are translated into Pound Sterling at the rates of exchange ruling on that date. Profits or losses on exchange, together with differences arising on the translation of foreign currency assets or liabilities, are taken to the capital return column of the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses arising on investment assets including loans are included within Net gain/(loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

The assets and liabilities of the Group's foreign operations are translated using the exchange rates prevailing at the reporting date. Income and expense items are translated using the average exchange rates during the period. Exchange differences arising from the translation of foreign operations are taken directly as currency translation differences through the Consolidated Statement of Comprehensive Income.

Capital reserves

Capital reserve – arising on investments sold includes:

- ❖ gains/losses on disposal of investments and the related foreign exchange differences;
- ❖ exchange differences on currency balances;
- ❖ cost of own shares bought back; and
- ❖ other capital charges and credits charged to this account in accordance with the accounting policies above.

Capital reserve – arising on investments held includes:

- ❖ increases and decreases in the valuation of investments held at the period-end;
- ❖ increases and decreases in the IFRS 9 reserve of investments held at the period-end; and
- ❖ investments in subsidiaries by the Parent Company where retained earnings is negative.

In the instance where the retained earnings of the Parent Company's investment in a subsidiary are negative, all income and expenses from that investment are allocated to the capital reserve for both the Group and the Parent Company.

All of the above are accounted for in the Consolidated Statement of Comprehensive Income except the cost of own shares bought back, if applicable, which would be accounted for in the Consolidated Statement of Changes in Equity.

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Revenue reserves

The revenue reserve represents the accumulated revenue profits retained by the Group. The Group makes interest distributions from the revenue reserve to Shareholders.

Segmental reporting

The chief operating decision maker is the Board of Directors. The Directors are of the opinion that the Group is engaged in a single segment of business, being the investment of the Group's capital in financial assets comprising consumer loans, SME loans, corporate trade receivables and/or advances thereon. The Board focuses on the overall return from these assets irrespective of the structure through which the investment is made.

Critical accounting estimates

The preparation of financial statements in conformity with IFRS adopted in the EU requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates.

The areas requiring a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements, are in relation to effective interest rate, expected credit losses and investments at fair value through profit or loss. These are detailed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Base case and stress case cash flow methodology under IFRS 9

Each loan in the Group's investment portfolio is analysed to assess the likelihood of the Group incurring any loss either (i) in the normal course of events, or (ii) in a stress scenario. Given that these positions are all secured by specific collateral, typically in the form of loan or lease receivables, and often further secured by guarantees from the operating business, the analysis looks at the impacts on both the specific collateral, as well as any obligations of the operating business to understand how the Group's investment would fair in each scenario. The loss rate assumptions for each transaction is established using all available historical loss performance data on the specific asset pool being assessed, supplemented by additional sources as needed.

The significant estimates within these scenarios used are:

- ❖ Impact on loss rates in a stress scenario – 1.1x to 2.1x;
- ❖ Probability of a stress scenario occurring – 100%; and
- ❖ Range of net losses – 0% to 42.3%.

Base case

To establish the base case model, a representative portfolio is established based on the average portfolio parameters from the actual collateral pool (based on the most recent available reporting date). The annual percentage rate ("APR") and term of the representative portfolio are reflected as a weighted average of the actual pool, a simplifying assumption which should largely capture the dynamics of the dispersion in the underlying. Prepayment and loss curves are established using a combination of (1) historical performance, (2) management forecasts, (3) proxy data from comparable assets or businesses, and (4) judgement from the Investment Manager's investment professionals based on general research and knowledge. Emphasis is given to the loss curves because they have a significantly larger impact on the liquidation outcomes compared to prepayments (and prepayment data is more difficult to accurately monitor for many platforms).

The model is then burdened with the following costs: (1) servicing costs which broadly reflect the expected costs of either (i) engaging a backup servicer to wind down the portfolio, or (ii) of operating the business through a liquidation, (2) upfront liquidation costs to reflect potential expenses associated with moving into liquidation, and (3) ongoing liquidation costs to reflect incremental costs born to oversee the liquidation.

The last input component is the terms of the Group's investment, which includes the applicable advance rate and interest rate assuming that the facility is fully levered at the time of liquidation.

The representative portfolio is deemed to reflect the most reliable and relevant information available about the portfolio attributes and expected performance. As part of the ongoing investment monitoring and risk management process, the Investment Manager is monitoring performance on the underlying collateral on a monthly basis to identify whether performance indicators are trending positively or negatively, and how much cushion exists compared to contractual covenant trigger levels. Any such changes would be reviewed to determine whether an adjustment is required to the model assumptions.

For the Group's legal finance balance sheet investments, we perform a similar analysis as with our financial services balance sheet investments, though in those cases we are assessing the likely return on legal sector investments based on historical data and expert judgement and stressing the return and/or loss expectation on those platforms. In general, those assets by their nature tend to be uncorrelated across both the macro economy as well as across the portfolio(s), which has an impact on the range of outcomes factored into the model.

Stress case

For nearly all of the investments being reviewed, the primary driver of collateral value is the loss rates on the underlying loans or leases, measured by cumulative net loss, which considers the total principal losses between a given point in time and the final repayment on the portfolio. While many of the companies and asset classes being reviewed do not have historical performance data going back to pre-2007, macro-economic data is available which can be used as a proxy for the specific asset classes being analysed. VPC commissioned a study of historical loss rates on

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various asset classes and segments in the US from 2006-2014 in order to understand the changes in loss rates by segment from the benign credit environment of 2006 through the worst parts of the recession. The following table summarizes the loss stress observed by segment where 0% indicates no change and 100% indicates a doubling of the relevant loss rate.

2008 Recession Loss Scalars by Asset and Population			
	Subprime & Deep Subprime Vintage Score below 601	Near Prime Vintage Score 601-660	Prime Vintage Score above 660
Student Loan	0%	10%	8%
Retail	17%	10%	3%
Personal Loan	16%	41%	108%
Auto	24%	54%	88%
Credit Card	43%	71%	132%

Source: Assessing Performance of Consumer Lending Assets through Macroeconomic Shocks, Second Order Solutions (June 2019)

The most heavily represented populations in the Group's borrower portfolios are personal loans (or amortizing installment loans). As seen in the above table, default rates on these loans increased by 1.16x-2.08x. Each portfolio was assessed based on the applicable stress factor range based on the product and borrower population.

IFRS 9 calls for an assessment of the probability of default over the upcoming 12 months, and thus the Investment Manager provides a view of the probability of such a severe scenario occurring in the next 12 months for each of the investments which are at risk of incurring a loss (as some of the variables will vary between investments). Typically the Investment Manager reviews macroeconomic data to assess the probability of a recession or stress scenario over a 12 month horizon. Given the rapid progression of COVID-19 around the globe and the ensuing macroeconomic impacts of the crisis, all the models have assumed a 100% probability of a stress scenario. The severity of stress is based on data from the recession in 2008-2009, and continues to be refined with additional information based on the current economic circumstances.

Once the model has been run at the stressed scenario, if the cash flows continue to support the payment of an investment's principal and interest, the portfolio is deemed to have adequate coverage. If there is a shortfall in principal payments, a further assessment is done to note whether there are any excluded variables that need to be considered in determining the need for reserves on the position, including taking into account other additional credit enhancements provided in each deal (i.e., corporate guarantees, etc.). Such assessment would consider the likelihood of a scenario that could pose a loss and the expected magnitude of such loss in order to determine the appropriate reserve level.

For balance sheet investments, two of the primary drivers of the impairment analysis are the underlying collateral loss rates and the likelihood of an economic recession in the upcoming 12-month period. Regarding the underlying collateral loss rates, these variables are stressed to 110%-210% as part of the impairment analysis and the impacts of those stresses are reflected in the impairment amounts. Regarding the likelihood of an economic recession in the upcoming 12-month period, as at 30 June 2020 an increase in the likelihood of an economic recession would have no impact on the expected credit losses since the analysis already assumes a 100% likelihood of an economic recession.

For marketplace loan investments, the IFRS 9 reserve provision is estimated using historical performance data about the Group's loans which is regularly updated and reviewed. A 5% increase in relation to the assumed delinquency and loss rates would increase the provision and the impairment charge shown in the Consolidated Statement of Comprehensive Income by less than £10,000. A decrease in these assumptions would have an opposite effect. The marketplace loan investments represent 1% of the Group's net asset value. All stress scenarios on the marketplace loan investments were run at a balance sheet date of 30 June 2020.

Measurement of the expected credit loss allowance

The calculation of the Group's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The most significant judgements that have been discussed above are considered to be the expected life of the financial instrument, what is considered to be a significant increase in credit risk to affect a movement between stages, and the effect of potential future economic scenarios.

Valuation of unquoted investments

The valuation of unquoted investments and investments for which there is an inactive market is a key area of judgement and may cause material adjustment to the carrying value of those assets and liabilities. The unquoted equity assets are valued on periodic basis using techniques including a market approach, costs approach and/or income approach. The valuation process is collaborative, involving the finance and investment functions within the Investment Manager with the final valuations being reviewed by the Board's Audit and Valuation Committee. The specific techniques used typically include earnings multiples, discounted cash flow analysis, the value of recent transactions, and, where appropriate, industry rules of thumb. The valuations often reflect a synthesis of a number of different approaches in determining the final fair value estimate. The individual approach for each investment will vary depending on relevant factors that a market participant would take into account in pricing the asset. Changes in fair value of all investments held at fair value are recognised in the Consolidated Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Consolidated Statement of Comprehensive Income as a capital item. Transaction costs are included within gains or losses on investments held at fair value, although any related interest income, dividend income and finance costs are disclosed separately in the Consolidated Financial Statements. The ultimate sale price of investments may not be the same as fair value. Refer to Note 3.

Critical accounting judgments

Judgement is required to determine whether the Parent Company exercises control over its investee entities and whether they should be consolidated.

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Control is achieved where the Parent Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Parent Company controls an investee entity when the Parent Company is exposed to, or has rights to, variable returns from its investment and has the ability to affect those returns through its power over the entity. At each reporting date, an assessment is undertaken of investee entities to determine control. In the intervening period, assessments are undertaken where circumstances change that may give rise to a change in the control assessment. These include when an investment is made into a new entity, or an amendment to existing entity documentation or processes. When assessing whether the Parent Company has the power to affect its variable returns, and therefore control investee entities, an assessment is undertaken of the Parent Company's ability to influence the relevant activities of the investee entity. These activities include considering the ability to appoint or remove key management or the manager, which party has decision making powers over the entity and whether the manager of an entity is acting as principal or agent. The assessment undertaken for entities considers the Parent Company's level of investment into the entity and its intended long-term holding in the entity and there may be instances where the Parent Company owns less than 51% of an investee entity but that entity is consolidated. Further details of the Parent Company's subsidiaries are included in Note 14.

The Group's investments in associates all consist of limited partner interest in funds. There are no significant restrictions between investors with joint control or significant influence over the associates listed above on the ability of the associates to transfer funds to any party in the form of cash dividends or to repay loans or advances made by the Group. The Group holds 52% interest in Larkdale III, L.P. while the Group's ultimate ownership of the investment held by Larkdale III, L.P. is 34%. The Group has determined it does not have accounting control as the general partner has operating control over the vehicle and acts as an agent for a number of the Investment Manager's funds.

Accounting standards issued but not yet effective or not material to the Group

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue.

Accounting standards effective

IFRS 17 'Insurance Contract' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Group's business being that it has no insurance contracts.

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements.

Other future developments include the IASB undertaking a comprehensive review of existing IFRSs. The Group will consider the financial impact of these new standards as they are finalised.

3. FAIR VALUE MEASUREMENT

Financial instruments measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels based on the significance of the inputs used in measuring its fair value:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – Pricing inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and is specific to the investment.

Valuation of investments in funds

The Group's investments in funds are subject to the terms and conditions of the respective fund's offering documentation. The investments in funds are primarily valued based on the latest available financial information. The Investment Manager reviews the details of the reported information obtained from the funds and considers: (i) the valuation of the fund's underlying investments; (ii) the value date of the NAV provided; (iii) cash flows (calls/distributions) since the latest value date; and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the funds. If necessary, adjustments to the NAV are made to the funds to obtain the best estimate of fair value. The funds in which the Group invests are close-ended and unquoted. No adjustments have been determined to be necessary to the NAV as provided as at 30 June 2020 as this reflects fair value under the relevant valuation methodology. The NAV is provided to investors only and is not made publicly available.

Valuation of equity securities

Fair value is determined based on the Group's valuation methodology, which is either determined using market comparables, discounted cash flow models or recent transactions.

In using a valuation methodology based on the discounting of forecasted cash flows of the Portfolio Company, significant judgment is required in the development of an appropriate discount rate to be applied to the forecasted cash flows. The assumptions incorporated in the valuation methodologies used to estimate the enterprise value consists primarily of unobservable Level 3 inputs, including management assumptions based on judgment. For example, from time to time, a Portfolio Company has exposure to potential or actual litigation. In evaluating the impact on the valuation for such items, the amount

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that a market participant would consider in estimating fair value is considered. These estimates are highly subjective, based on the Group's assessment of the potential outcome(s) and the related impact on the fair value of such potential outcome(s). A change in these assumptions could have a material impact on the determination of fair value.

In using a valuation methodology based on comparable public companies or sales of private or public comparable companies, significant judgment is required in the application of discounts or premiums to the prices of comparable companies for factors such as size, marketability and relative performance.

Under the yield analysis approach, expected future cash flows are discounted back using a discount rate. The discount rate used incorporates market based yields for similar credits to the public market and the underlying risk of the individual credit.

Fair value disclosures

The following table analyses the fair value hierarchy of the Group's assets and liabilities measured at fair value at 30 June 2020:

Investment assets designated as held at fair value	(UNAUDITED) TOTAL £	(UNAUDITED) LEVEL 1 £	(UNAUDITED) LEVEL 2 £	(UNAUDITED) LEVEL 3 £
Investments in funds	3,710,091	-	-	3,710,091
Equity securities	35,382,829	1,208,896	-	34,173,933
Total	39,092,920	1,208,896	-	37,884,024

Derivative financial assets	(UNAUDITED) TOTAL £	(UNAUDITED) LEVEL 1 £	(UNAUDITED) LEVEL 2 £	(UNAUDITED) LEVEL 3 £
Forward foreign exchange contracts	1,416,582	-	1,416,582	-
Total	1,416,582	-	1,416,582	-

Derivative financial liabilities	(UNAUDITED) TOTAL £	(UNAUDITED) LEVEL 1 £	(UNAUDITED) LEVEL 2 £	(UNAUDITED) LEVEL 3 £
Forward foreign exchange contracts	155,933	-	155,933	-
Total	155,933	-	155,933	-

There were no movements between Level 1 and Level 2 fair value measurements during the period ended 30 June 2020 and no transfers into and out of Level 3 fair value measurements for the Group.

The following table analyses the fair value hierarchy of the Group's assets and liabilities measured at fair value at 30 June 2019:

Investment assets designated as held at fair value	(UNAUDITED) TOTAL £	(UNAUDITED) LEVEL 1 £	(UNAUDITED) LEVEL 2 £	(UNAUDITED) LEVEL 3 £
Investments in funds	10,017,309	-	-	10,017,309
Equity securities	44,371,054	3,282,119	-	41,088,935
Total	54,388,363	3,282,119	-	51,106,244

Derivative financial liabilities	(UNAUDITED) TOTAL £	(UNAUDITED) LEVEL 1 £	(UNAUDITED) LEVEL 2 £	(UNAUDITED) LEVEL 3 £
Forward foreign exchange contracts	2,184,348	-	2,184,348	-
Total	2,184,348	-	2,184,348	-

There were no movements between Level 1 and Level 2 fair value measurements during the period ended 30 June 2019 and no transfers into and out of Level 3 fair value measurements for the Group.

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The following table analyses the fair value hierarchy of the Group's assets and liabilities measured at fair value at 31 December 2019:

Investment assets designated as held at fair value	(AUDITED) TOTAL £	(AUDITED) LEVEL 1 £	(AUDITED) LEVEL 2 £	(AUDITED) LEVEL 3 £
Investments in funds	4,461,946	-	-	4,461,946
Equity securities	38,040,188	3,401,613	-	34,638,575
Total	42,502,134	3,401,613	-	39,100,521

Derivative financial assets	(AUDITED) TOTAL £	(AUDITED) LEVEL 1 £	(AUDITED) LEVEL 2 £	(AUDITED) LEVEL 3 £
Forward foreign exchange contracts	3,985,365	-	3,985,365	-
Total	3,985,365	-	3,985,365	-

There were no movements between Level 1 and Level 2 fair value measurements during the year ended 31 December 2019 and no transfers into and out of Level 3 fair value measurements for the Group.

The following table presents the movement in Level 3 positions for the period for the Group at 30 June 2020:

	(UNAUDITED) INVESTMENTS IN FUNDS £	(UNAUDITED) EQUITY SECURITIES £
Beginning balance, 1 January 2020	4,461,946	34,638,575
Purchases	-	6,322,262
Sales	(718,047)	(2,557,932)
Net change in unrealised foreign exchange gains (losses)	266,317	3,166,821
Net change in unrealised gains (losses)	(300,125)	(7,395,793)
Ending balance, 30 June 2020	3,710,091	34,173,933

The following table presents the movement in Level 3 positions for the period for the Group at 30 June 2019:

	(UNAUDITED) INVESTMENTS IN FUNDS £	(UNAUDITED) EQUITY SECURITIES £
Beginning balance, 1 January 2019	27,922,819	35,167,242
Purchases	539,406	8,222,019
Sales	(18,372,356)	(4,603,425)
Net change in unrealised foreign exchange gains (losses)	(406,161)	(4,042,502)
Net change in unrealised gains (losses)	333,601	6,345,601
Ending balance, 30 June 2019	10,017,309	41,088,935

The following table presents the movement in Level 3 positions for the year ended 31 December 2019 for the Group:

	(AUDITED) INVESTMENTS IN FUNDS £	(AUDITED) EQUITY SECURITIES £
Beginning balance, 1 January 2019	27,922,819	35,167,242
Purchases	539,406	12,410,417
Sales	(23,540,339)	(17,476,005)
Net change in unrealised foreign exchange gains (losses)	(1,325,925)	(479,573)
Net change in unrealised gains (losses)	865,985	5,016,494
Ending balance, 31 December 2019	4,461,946	34,638,575

The net change in unrealised gains is recognised within gains on investments in the Consolidated Statement of Comprehensive Income.

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Quantitative information regarding the unobservable inputs for Level 3 positions is given below:

DESCRIPTION	FAIR VALUE AT 30 JUNE 2020		VALUATION TECHNIQUE	UNOBSERVABLE INPUT	RANGE
	£				
Investments in funds	3,710,092		Net asset value	N/A	N/A
Equity securities	19,631,349		Market Comparables	Rights and Preferences Discount	20.0% - 25.0%
				Market Volatility Discount	10.0% - 25.0%
				Price Per Share	US\$0.11 - €1,156.15
				Price to Total Book Value (Comparable Median)	0.9x
				Price to Earnings (Comparable Median)	5.3x
				Price to Book (Comparable Median)	1.0x
				Private Company Discount	10.0%
Equity securities	7,225,143		Discounted Cash Flows	Discount Rate	24.0%
				Annual FCF Growth Rate	3.0%
Equity securities	828,825		Yield Analysis	Market Yield	16.1%
Equity securities	1,346,175		Recoverability Analysis	Recovery percentage of underlying loans	0.0% - 100.0%
Equity securities	5,142,440		Transaction Price	Price Per Share	US\$0.05 - US\$1.51
				N/A	N/A

The investments in funds consist of investments in Larkdale III, L.P. and VPC Offshore Unleveraged Private Debt Fund, L.P. These are valued based on the NAV as calculated at the balance sheet date. No adjustments have been deemed necessary to the NAV as it reflects the fair value of the underlying investments, as such no specific unobservable inputs have been identified. The NAVs are sensitive to movements in interest rates due to the funds' underlying investment in loans.

If the price per share from recent transactions of the equity securities valued based on market comparables increased / decreased by 5% it would have resulted in an increase / decrease to the total value of those equity securities of £623,226 which would affect the Net gain / (loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

If the rights and preferences discount of the equity securities valued based on market comparables increased / decreased by 5% it would have resulted in an increase / decrease to the total value of those equity securities of £531,674 which would affect the Net gain / (loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

If the price of all the investment assets held at period end, including individually those mentioned above, had increased / decreased by 10% it would have resulted in an increase / decrease in the total value the investments in funds and equity securities of £3,788,402 which would affect the Net gain / (loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table presents the fair value of the Group's assets and liabilities not measured at fair value through profit and loss at 30 June 2020 but for which fair value is disclosed. The carrying value has been used where it is a reasonable approximation of fair value:

	(UNAUDITED) CARRYING VALUE £	(UNAUDITED) FAIR MARKET VALUE £
Assets		
Loans	318,953,868	318,957,282
Total	318,953,868	318,957,282

The following table presents the fair value of the Group's assets and liabilities not measured at fair value through profit and loss at 30 June 2019 but for which fair value is disclosed. The carrying value has been used where it is a reasonable approximation of fair value:

	(UNAUDITED) CARRYING VALUE £	(UNAUDITED) FAIR MARKET VALUE £
Assets		
Loans	365,060,505	365,061,902
Total	365,060,505	365,061,902

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The following table presents the fair value of the Group's assets and liabilities not measured at fair value through profit and loss at 31 December 2019 but for which fair value is disclosed. The carrying value has been used where it is a reasonable approximation of fair value:

	(AUDITED) CARRYING VALUE £	(AUDITED) FAIR MARKET VALUE £
Assets		
Loans	352,910,880	352,921,109
Total	352,910,880	352,921,109

4. INCOME AND GAINS ON INVESTMENTS AND LOANS

	(UNAUDITED) 30 JUNE 2020 £	(UNAUDITED) 30 JUNE 2019 £	(AUDITED) 31 DECEMBER 2019 £
Other Income			
Distributable income from investments in funds	26,667	740,819	1,282,988
Interest income from investment assets designated as held at fair value through profit or loss	626,115	546,492	1,257,378
Other income	361,486	209,011	775,578
Total	1,014,268	1,496,322	3,315,944

	(UNAUDITED) 30 JUNE 2020 £	(UNAUDITED) 30 JUNE 2019 £	(AUDITED) 31 DECEMBER 2019 £
Net gains (losses) on investments			
Realised gain on sale of investments	601,633	147,459	1,451,642
Unrealised gain (loss) on investment in funds	(300,125)	333,601	865,985
Unrealised gain (loss) on equity securities	(9,833,969)	1,506,566	3,418,476
Total	(9,532,461)	1,987,626	5,736,103

5. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk arising from the financial instruments held by the Group.

Risk management structure

The Directors are ultimately responsible for identifying and controlling risks. Day to day management of the risks arising from the financial instruments held by the Group has been delegated to Victory Park Capital Advisors, LLC as Investment Manager to the Parent Company and the Group.

The Investment Manager regularly reviews the investment portfolio and industry developments to ensure that any events which impact the Group are identified and considered. This also ensures that any risks affecting the investment portfolio are identified and mitigated to the fullest extent possible.

The Group has no employees and the Directors have all been appointed on a non-executive basis. Whilst the Group has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Group is reliant upon the performance of third-party service providers for its executive function. In particular, the Investment Manager, the Custodian, the Administrator, Corporate Secretary and the Registrar will be performing services which are integral to the operation of the Group. Failure by any service provider to carry out its obligations to the Group in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Group.

The principal risks and uncertainties that could have a material impact on the Group's performance have not changed from those set out in detail on pages 25 to 28 of the Annual Report for the year ended 31 December 2019.

In seeking to implement the investment objectives of the Parent Company while limiting risk, the Parent Company and the Group are subject to the investment limits restrictions set out in the Credit Risk section of this note.

Market risk (incorporating price, interest rate and currency risks)

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its Financial Instruments.

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Market price risk

The Group is exposed to price risk arising from the investments held by the Group for which prices in the future are uncertain. The investment in funds are exposed to market price risk. Refer to Note 3 for further details on the sensitivity of the Group's Level 3 investments to price risk.

Interest rate risk

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

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Due to the nature of the investments at 30 June 2020, the Group has limited exposure to variations in interest rates as the key components of interest rates are fixed and determinable or variable based on the size of the loan.

While the Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows, the downside exposure of the Group is limited at 30 June 2020 due to the fixed rate nature of the investments or interest rate floors that are in place on most of the Group's variable interest rate loans. Subsequent to the period end, interest rates have been reduced as a direct result of the impact of COVID-19. The interest rate floors that are in place on most of the Group's variable interest rate loans reduces the potential impact that a decrease in rates would have on the Group's investments.

The Group does not intend to hedge interest rate risk on a regular basis. However, where it enters floating rate liabilities against fixed-rate loans, it may at its sole discretion seek to hedge out the interest rate exposure, taking into consideration amongst other things the cost of hedging and the general interest rate environment.

Currency risk

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. Relevant risk variables are generally movements in the exchange rates of non-functional currencies in which the Group holds financial assets and liabilities.

The assets of the Group as at 30 June 2020 were invested in assets which were denominated in US Dollar, Euro, Pound Sterling and other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Group hedges currency exposure between Pound Sterling and any other currency in which the Group's assets may be denominated, in particular US Dollar and Euro.

The Group continuously monitors for fluctuations in currency rates. The Group performs stress tests and liquidity projections to determine how much cash should be held back to meet potential future obligations to settle margin calls arising from foreign exchange hedging.

The coronavirus (COVID-19) pandemic could be a significant driver for potential exchange rate volatility and the devaluation of Sterling. The Group's policy is to hedge exchange rate risk where appropriate, which could lead to the potential of large cash margin calls. The Group's gearing facility with Pacific Western Bank will help mitigate this risk.

Micro and small cap company investing risk

The Group will generally invest with companies that are small, not widely known and not widely held. Small companies tend to be more vulnerable to adverse developments than larger companies and may have little or no track records. Small companies may have limited product lines, markets, or financial resources, and may depend on less seasoned management. Their securities may trade infrequently and in limited volumes. It may take a relatively long period of time to accumulate an investment in a particular issue in order to minimise the effect of purchases on market price. Similarly, it could be difficult to dispose of such investments on a timely basis without adversely affecting market prices. As a result, the prices of these securities may fluctuate more than the prices of larger, more widely traded companies. Also, there may be less publicly available information about small companies or less market interest in their securities compared to larger companies, and it may take longer for the prices of these securities to reflect the full value of their issuers' earnings potential or assets.

Gearing and borrowing risk

Whilst the use of borrowings by the Group should enhance the net asset value of an investment when the value of an investment's underlying assets is rising, it will, however, have the opposite effect where the underlying asset value is falling. In addition, in the event that an investment's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Group's investment and accordingly will have an adverse effect on the ability of the investment to make distributions to the Group. This risk is mitigated by limiting borrowings to ring-fenced Special-Purpose Vehicles ("SPV") without recourse to the Group and employing gearing in a disciplined manner.

Concentration of foreign currency exposure

The Investment Manager monitors the fluctuations in foreign currency exchange rates and may use forward foreign exchange contracts to hedge the currency exposure of the Parent Company and Group's non-Pound Sterling denominated investments. The Investment Manager re-examines the currency exposure on a regular basis in each currency and manages the Parent Company's currency exposure in accordance with market expectations.

Liquidity risk

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price. Ordinary Shares are not redeemable at the holder's option.

The maturities of the non-current financial liabilities are disclosed in Note 6.

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Current financial liabilities consisting of fees payable, accrued expenses and other liabilities are all due within three months.

The Investment Manager manages the Group's liquidity risk by investing primarily in a diverse portfolio of assets. At 30 June 2020, 24% of the loans had a stated maturity date of less than a year (31 December 2019: 5%; 30 June 2019: 11%). The Group has no loans with a maturity date of more than five years.

The Group and Parent Company continuously monitor for fluctuation in currency rates. The Parent Company performs stress tests and liquidity projections to determine how much cash should be held back to meet potential future obligations to settle margin calls arising from foreign exchange hedging.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's credit risks arise principally through exposures to loans acquired by the Group, which are subject to risk of borrower default. The ability of the Group to earn revenue is completely dependent upon payments being made by the borrower of the loan acquired by the Group through a Portfolio Company. The Group (as a lender member) will receive payments under any loans it acquires through a Portfolio Company only if the corresponding borrower through that Portfolio Company (borrower member) makes payments on the loan.

Consumer loans are unsecured obligations of borrower members. They are not secured by any collateral, not guaranteed or insured by any third party and not backed by any governmental authority in any way.

The Group will invest across various Portfolio Companies, asset classes, geographies (primarily US, Europe and Latin America) and credit bands in order to ensure diversification and to seek to mitigate concentration risks.

Under the Balance Sheet Model, the Group provides a floating rate Credit Facility to the Portfolio Company via a SPV, which retains Debt Instruments that are originated by the Portfolio Company. The debt financing is typically arranged in the form of a senior secured facility and the Portfolio Company injects junior capital in the SPV, which provides significant first loss protection to the Company and excess spread, which provides downside protection versus marketplace loans. The Group's balance sheet investments are loans to SPVs that are capitalised and actively managed by the Portfolio Companies in their capacity as both the owner and managing partner of the SPVs and the SPVs are not considered structured entities under IFRS 12.

There are no loans past due which are not impaired.

Pandemic risk

As the Coronavirus (COVID-19) outbreak continues to spread, there has been increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. The Investment Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis and will take all reasonable steps to continue meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board. For example, to enhance its resilience, the Investment Manager has mandated work from home arrangements for all employees. The Company's other third-party service providers have also confirmed the implementation of similar measures to ensure no business disruption to the Investment Manager.

Portfolio Company restrictions

The Group does not intend to invest more than 20% of its Gross Assets in Debt Instruments (net of any gearing ring-fenced within any special purpose vehicle which would be without recourse to the Group), originated by, and/or Credit Facilities and equity instruments in, any single Portfolio Company, calculated at the time of investment. All such aggregate exposure to any single Portfolio Company (including investments via a special purpose vehicle) will always be subject to an absolute maximum, calculated at the time of investment, of 25% of the Group's Gross Assets.

Asset class restrictions

The Group does not intend to acquire Debt Instruments for a term longer than five years. The Group will not invest more than 20% of its Gross Assets, at the time of investment, via any single investment fund investing in Debt Instruments and Credit Facilities. In any event, the Group will not invest, in aggregate, more than 60% of its Gross Assets, at the time of investment, in investment funds that invest in Debt Instruments and Credit Facilities.

The Group will not invest more than 10% of its Gross Assets, at the time of investment, in other listed closed-ended investment funds, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

The following restrictions apply, in each case at the time of investment by the Group, to both Debt Instruments acquired by the Group via wholly-owned special purpose vehicles or partially-owned special purpose vehicles on a proportionate basis under the Marketplace Model, as well as on a look-through basis under the Balance Sheet Model and to any Debt Instruments held by another investment fund in which the Group invests:

- ❖ No single consumer loan acquired by the Group shall exceed 0.25% of its Gross Assets.
- ❖ No single SME loan acquired by the Group shall exceed 5.0% of its Gross Assets. For the avoidance of doubt, Credit Facilities entered into directly with Platforms are not considered SME loans.
- ❖ No single trade receivable asset acquired by the Group shall exceed 5.0% of its Gross Assets.

Other restrictions

The Group's un-invested or surplus capital or assets may be invested in Cash Instruments for cash management purposes and with a view to enhancing returns to Shareholders or mitigating credit exposure.

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6. NOTE PAYABLE

The Group entered into contractual obligations with third parties to structurally subordinate a portion of the principal directly attributable to existing investments. The cash flows received by the Group from the underlying investments are used to pay the lender principal, interest, and draw fees based upon the stated terms of the Credit Facility. Unless due to a fraudulent act, as defined by the Credit Facilities, none of the Group's other investment assets can be used to satisfy the obligations of the Credit Facilities in the event that those obligations cannot be met by the subsidiaries. Each subsidiary with a Credit Facility is a bankruptcy remote entity.

The table below provides details of the outstanding debt of the Group at 30 June 2020:

	INTEREST RATE	OUTSTANDING PRINCIPAL £	MATURITY
30 JUNE 2020 (UNAUDITED)			
Credit Facility 11-2018	4.25% + 1M LIBOR	64,570,806	30 November 2022
Total		64,570,806	

The table below provides details of the outstanding debt of the Group at 30 June 2019:

	INTEREST RATE	OUTSTANDING PRINCIPAL £	MATURITY
30 JUNE 2019 (UNAUDITED)			
Credit Facility 11-2018	4.50% + 1M LIBOR	69,272,248	30 November 2022
Total		69,272,248	

The table below provides details of the outstanding debt of the Group at 31 December 2019:

	INTEREST RATE	OUTSTANDING PRINCIPAL £	MATURITY
31 DECEMBER 2019 (AUDITED)			
Credit Facility 11-2018	4.25% + 1M LIBOR	58,010,424	30 November 2022
Total		58,010,424	

The Group entered into contractual obligations with a third party to structurally subordinate a portion of principal directly attributable to an existing loan facility. The Group is obligated to pay a commitment fee and interest to the third party on the obligation as interest is paid on the underlying loan facility. In the event of a default on the loan facility, the third party has first-out participation rights on the accrued and unpaid interest as well as the principal balance of the note.

The table below provides details of the outstanding first-out participation liabilities of the Group at 30 June 2020:

	OUTSTANDING PRINCIPAL £	MATURITY
30 JUNE 2020 (UNAUDITED)		
First-Out Participation 06-2015	11,152,655	13 June 2021
First-Out Participation 03-2017	22,556,070	1 January 2024
First-Out Participation 04-2019	19,852,481	1 January 2024
Total	53,561,206	

The table below provides details of the outstanding first-out participation liabilities of the Group at 30 June 2019:

	OUTSTANDING PRINCIPAL £	MATURITY
30 JUNE 2019 (UNAUDITED)		
First-Out Participation 06-2015	11,040,265	13 June 2021
First-Out Participation 03-2017	23,107,844	1 January 2024
First-Out Participation 04-2019	21,933,641	1 January 2024
Total	56,081,750	

The table below provides details of the outstanding first-out participation liabilities of the Group at 31 December 2019:

	OUTSTANDING PRINCIPAL £	MATURITY
31 DECEMBER 2019 (AUDITED)		
First-Out Participation 06-2015	10,437,029	13 June 2021
First-Out Participation 03-2017	22,173,162	1 January 2024
First-Out Participation 04-2019	21,046,454	1 January 2024
Total	53,656,645	

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

The table below provides the movement of the notes payable and securities sold under agreements to repurchase for the period ended 30 June 2020 for the Group:

(UNAUDITED)	NOTES PAYABLE £
Beginning balance, 1 January 2020	111,667,069
Purchases	40,758,337
Sales	(42,400,300)
Net change in unrealised foreign exchange gains (losses)	8,106,906
Ending balance, 30 June 2020	118,132,012

The table below provides the movement of the notes payable and securities sold under agreements to repurchase for the period ended 30 June 2019 for the Group:

(UNAUDITED)	SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE £	NOTES PAYABLE £
Beginning balance, 1 January 2019	1,341,981	51,329,831
Purchases	-	115,326,487
Sales	(1,335,644)	(42,125,255)
Net change in unrealised foreign exchange gains (losses)	(6,337)	822,935
Ending balance, 30 June 2019	-	125,353,998

The table below provides the movement of the notes payable and securities sold under agreements to repurchase for the year ended 31 December 2019 for the Group:

(AUDITED)	SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE £	NOTES PAYABLE £
Beginning balance, 1 January 2019	1,341,981	51,329,831
Purchases	-	152,218,925
Sales	(1,335,644)	(87,293,547)
Net change in unrealised foreign exchange gains (losses)	(6,337)	(4,588,140)
Ending balance, 31 December 2019	-	111,667,069

7. IMPAIRMENT OF FINANCIAL ASSETS AT AMORTISED COST

The table below provides details of the investments at amortised cost held by the Group for the period ended 30 June 2020 under IFRS 9:

(UNAUDITED)	COST BEFORE ECL £	ECL £	LOANS WRITTEN-OFF £	CARRYING VALUE £
Loans at amortised cost	335,957,589	15,605,793	1,397,928	318,953,868
Total	335,957,589	15,605,793	1,397,928	318,953,868

The table below provides details of the investments at amortised cost held by the Group for the period ended 30 June 2019 under IFRS 9:

(UNAUDITED)	COST BEFORE ECL £	ECL £	LOANS WRITTEN-OFF £	CARRYING VALUE £
Loans at amortised cost	372,889,246	7,721,294	107,447	365,060,505
Total	372,889,246	7,721,294	107,447	365,060,505

The table below provides details of the investments at amortised cost held by the Group for the year ended 31 December 2019 under IFRS 9:

(AUDITED)	COST BEFORE ECL £	ECL £	LOANS WRITTEN-OFF £	CARRYING VALUE £
Loans at amortised cost	362,966,569	9,631,612	424,077	352,910,880
Total	362,966,569	9,631,612	424,077	352,910,880

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

Credit impairment losses

The credit impairment losses of the Group as at 30 June 2020 comprised of the following under IFRS 9:

	CREDIT IMPAIRMENT LOSSES 30 JUNE 2020 £
(UNAUDITED)	
Loans written off	1,397,928
Change in expected credit losses	5,974,181
Currency translation on expected credit losses	(67,318)
Credit impairment losses	7,304,791

The impairment charge of the Group as at 30 June 2019 comprised of the following under IFRS 9:

	CREDIT IMPAIRMENT LOSSES 30 JUNE 2019 £
(UNAUDITED)	
Loans written off	107,447
Change in expected credit losses	461,864
Currency translation on expected credit losses	(8,819)
Credit impairment losses	560,492

The impairment charge of the Group as at 31 December 2019 comprised of the following under IFRS 9:

	CREDIT IMPAIRMENT LOSSES 31 DECEMBER 2019 £
(AUDITED)	
Loans written off	424,077
Change in expected credit losses	2,372,182
Currency translation on expected credit losses	(393,963)
Credit impairment losses	2,402,296

Impairment of loans written off

Impairment charges of loans written off of £83,415 (31 December 2019: £424,077; 30 June 2019: £107,447) have been recorded in the Group's Consolidated Statement of Financial Position and are included in credit impairment losses on the Consolidated Statement of Comprehensive Income.

Provision for expected credit losses

As at 30 June 2020, the Group has created a reserve provision on the outstanding principal of the Group's loans of £15,605,793 (31 December 2019: £9,631,612; 30 June 2019: £7,721,294), which have been recorded in the Group's Consolidated Statement of Financial Position and are included in credit impairment losses on the Consolidated Statement of Comprehensive Income. The majority of the loans reserved against by the Group would be classified as secured other when being assessed for the credit quality of loans.

The expected credit losses comprised the following as at 30 June 2020:

	30 JUNE 2020 £
(UNAUDITED)	
Beginning balance 1 January 2020	9,631,612
Change in expected credit losses or equivalent	5,974,181
Ending balance 30 June 2020	15,605,793

The expected credit losses comprised the following as at 30 June 2019:

	30 JUNE 2019 £
(UNAUDITED)	
Beginning balance 1 January 2019	7,259,430
Change in expected credit losses or equivalent	461,864
Ending balance 30 June 2019	7,721,294

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

The expected credit losses comprised the following as at 31 December 2019:

	31 DECEMBER 2019
(AUDITED)	£
Beginning balance 1 January 2019	7,259,430
Change in expected credit losses or equivalent	2,372,182
Ending balance 31 December 2019	9,631,612

Below is a breakout of the provision for expected credit losses by stage of the ECL model as at 30 June 2020:

(UNAUDITED)	UNSECURED UNITED STATES	SECURED UNITED STATES	UNSECURED OTHER	SECURED OTHER	30 JUNE 2020 £
Stage 1	5,715,172	-	-	133,641	5,848,813
Stage 2	2,381	-	2,272,720	7,232,719	9,507,820
Stage 3	3,340	-	-	245,820	249,160
Expected credit losses	5,270,893	-	2,272,720	7,612,180	15,605,793

Below is a breakout of the provision for expected credit losses by stage of the ECL model as at 30 June 2019:

(UNAUDITED)	UNSECURED UNITED STATES	SECURED UNITED STATES	UNSECURED OTHER	SECURED OTHER	30 JUNE 2019 £
Stage 1	26,802	-	-	479,777	506,579
Stage 2	1,176	2,102,263	-	3,292,669	5,396,108
Stage 3	485	515,044	-	1,303,078	1,818,607
Expected credit losses	28,463	2,617,307	-	5,075,524	7,721,294

Below is a breakout of the provision for expected credit losses by stage of the ECL model as at 31 December 2019:

(AUDITED)	UNSECURED UNITED STATES	SECURED UNITED STATES	UNSECURED OTHER	SECURED OTHER	31 DECEMBER 2019 £
Stage 1	11,778	-	-	209,334	221,112
Stage 2	7,598	-	821,497	6,891,527	7,720,622
Stage 3	-	1,235,527	-	454,351	1,689,878
Expected credit losses	19,376	1,235,527	821,497	7,555,212	9,631,612

Below is a breakout of the carrying value of loans by stage of the ECL model as at 30 June 2020:

(UNAUDITED)	UNSECURED UNITED STATES	SECURED UNITED STATES	UNSECURED OTHER	SECURED OTHER	30 JUNE 2019 £
Stage 1	208,228,846	36,311,006	66,437,394	585,542	311,562,788
Stage 2	-	-	2,477,183	4,788,187	7,265,370
Stage 3	-	125,710	-	-	125,710
Loans at amortised cost	208,228,846	36,436,716	68,914,577	5,373,729	318,953,868

Below is a breakout of the carrying value of loans by stage of the ECL model as at 30 June 2019:

(UNAUDITED)	UNSECURED UNITED STATES	SECURED UNITED STATES	UNSECURED OTHER	SECURED OTHER	30 JUNE 2019 £
Stage 1	204,484,868	55,039,674	77,583,860	2,466,291	339,574,693
Stage 2	478	4,780,921	13,037,413	7,199,951	25,018,763
Stage 3	31	467,018	-	-	467,049
Loans at amortised cost	204,485,377	60,287,613	90,621,273	9,666,242	365,060,505

VPC SPECIALTY LENDING INVESTMENTS PLC

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FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

Below is a breakout of the carrying value of loans by stage of the ECL model as at 31 December 2019:

	UNSECURED UNITED STATES	SECURED UNITED STATES	UNSECURED OTHER	SECURED OTHER	31 DECEMBER 2019 £
Stage 1	223,027,575	28,765,877	81,519,628	1,282,797	334,595,877
Stage 2	-	-	10,773,820	7,286,451	18,060,271
Stage 3	-	254,732	-	-	254,732
Loans at amortised cost	223,027,575	29,020,609	92,293,448	8,569,248	352,910,880

8. FEES AND EXPENSES

Under the terms of the Investment Management Agreement, the Investment Manager is entitled to a management fee and a performance fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

Investment management fees

The management fee is payable in Pound Sterling monthly in arrears and is at the rate of 1/12 of 1.0% per month of NAV (the "Management Fee"). For the period from Admission until the date on which 90% of the net proceeds of the Issue have been invested or committed for investment (other than in Cash Instruments), the value attributable to any Cash Instruments of the Group held for investment purposes will be excluded from the calculation of NAV for the purposes of determining the Management Fee.

The Investment Manager shall not charge a management fee twice. Accordingly, if at any time the Group invests in or through any other investment fund or special purpose vehicle and a management fee or advisory fee is charged to such investment fund or special purpose vehicle by the Investment Manager or any of its affiliates, the Investment Manager agrees to either (at the option of the Investment Manager): (i) waive such management fee or advisory fee due to the Investment Manager or any of its affiliates in respect of such investment fund or special purpose vehicle, other than the fees charged by the Investment Manager under the Management Agreement; or (ii) charge the relevant fee to the relevant investment fund or special purpose vehicle, subject to the cap set out in the paragraph below, and ensure that the value of such investment shall be excluded from the calculation of the NAV for the purposes of determining the Management Fee payable pursuant to the above. The management fee expense of the Group for the period is £1,798,060 (31 December 2019: £3,604,121; 30 June 2019: £1,776,871).

Notwithstanding the above, where such investment fund or special purpose vehicle employs leverage from third parties and the Investment Manager or any of its affiliates is entitled to charge it a fee based on gross assets in respect of such investment, the Investment Manager may not charge a fee greater than 1.0% per annum of gross assets in respect of any investment made by the Parent Company or any member of the Group.

Performance fees

The performance fee is calculated by reference to the movements in the Adjusted Net Asset Value since the end of the Calculation Period in respect of which a performance fee was last earned or Admission if no performance fee has yet been earned. The payment of any performance fees to the Investment Manager will be conditional on the Parent Company achieving at least a 5.0% per annum total return for shareholders relative to a 30 April 2017 High Water Mark.

The performance fee will be calculated in respect of each 12 month period starting on 1 January and ending on 31 December in each calendar year (a "Calculation Period") and provided further that if at the end of what would otherwise be a Calculation Period no performance fee has been earned in respect of that period, the Calculation Period shall carry on for the next 12 month period and shall be deemed to be the same Calculation Period and this process shall continue until a performance fee is next earned at the end of the relevant period.

The performance fee will be equal to the lower of (i) in each case as at the end of the Calculation Period, an amount equal to (a) Adjusted Net Asset Value minus the Adjusted Hurdle Value, minus (b) the aggregate of all Performance Fees paid to the Manager in respect of all previous Calculation Periods; and (ii) the amount by which (a) 15% of the total increase in the Adjusted Net Asset Value since the Net Asset Value as at 30 April 2017 (being the aggregate of the increase in the Adjusted Net Asset Value in the relevant Calculation Period and in each previous Calculation Period) exceeds (b) the aggregate of all Performance Fees paid to the Manager in respect of all previous Calculation Periods. In the foregoing calculation, the Adjusted Net Asset Value will be adjusted for any increases or decreases in the Net Asset Value attributable to the issue or repurchase of any Ordinary Shares in order to calculate the total increase in the Net Asset Value attributable to the performance of the Parent Company.

"Adjusted Net Asset Value" means the Net Asset Value plus (a) the aggregate amount of any dividends paid or distributions made in respect of any Ordinary Shares and (b) the aggregate amount of any dividends or distributions accrued but unpaid in respect of any Ordinary Shares, plus the amount of any Performance Fees both paid and accrued but unpaid, in each case after the Effective Date and without duplication. "Adjusted Hurdle Value" means the Net Asset Value as at 30 April 2017 adjusted for any increases or decreases in the Net Asset Value attributable to the issue or repurchase of any Ordinary Shares increasing at an un compounded rate equal to the Hurdle. The "Hurdle" means a 5% per annum total return for shareholders.

The Investment Manager shall not charge a performance fee twice. Accordingly, if at any time the Group invests in or through any other investment fund, special purpose vehicle or managed account arrangement and a performance fee or carried interest is charged to such investment fund, special purpose vehicle or managed account arrangement by the Investment Manager or any of its affiliates, the Investment Manager agrees to (and shall procure that all of its relevant affiliates shall) either (at the option of the Investment Manager): (i) waive such performance fee or carried interest suffered by the Group by virtue of the Investment Manager's (or such relevant affiliate's/affiliates') management of (or advisory role in respect of) such investment fund, special purpose vehicle or managed account, other than the fees charged by the Investment Manager under the Management Agreement; or (ii) calculate the performance fee as above, except that in making such calculation the NAV (as of the date of the High Water Mark) and the Adjusted NAV (as of the NAV calculation date) shall not include the value of any assets invested in any other investment fund, special purpose vehicle or managed account arrangement that is charged a performance fee or carried interest by the Investment Manager or any of its affiliates (and such performance fee or carried interest is not waived with respect to the Group). The performance fee expense of the Group for the period is £nil (31

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

December 2019: £7,411,745; 30 June 2019: £4,895,679).

9. NET ASSET VALUE PER SHARE

	(UNAUDITED) AS AT 30 JUNE 2020	(UNAUDITED) AS AT 30 JUNE 2019	(AUDITED) AS AT 31 DECEMBER 2019
Ordinary Shares			
Net assets	£ 260,396,391	£ 299,952,260	£ 291,479,251
Shares in issue	290,036,012	325,229,642	312,302,305
Net asset value per Ordinary Share	89.78p	92.23p	93.33p

10. RETURN PER ORDINARY SHARE

Basic earnings per share is calculated using the weighted average number of shares in issue during the year, excluding the average number of Shares purchased by the Parent Company and held as Treasury Shares.

	(UNAUDITED) AS AT 30 JUNE 2020	(UNAUDITED) AS AT 30 JUNE 2019	(AUDITED) AS AT 31 DECEMBER 2019
Profit for the period	-£ 3,495,706	£ 11,149,760	£ 25,463,975
Average number of shares in issue during the period	305,045,099	346,887,033	333,677,105
Earnings per Share (basic and diluted)	-1.15p	3.21p	7.63p

The Parent Company has not issued any shares or other instruments that are considered to have dilutive potential.

11. SHAREHOLDERS' CAPITAL

Set out below is the issued share capital of the Company as at 30 June 2020:

(UNAUDITED)	NOMINAL VALUE £	NUMBER OF SHARES
Ordinary Shares	0.01	290,036,012

Set out below is the issued share capital of the Company as at 30 June 2019:

(UNAUDITED)	NOMINAL VALUE £	NUMBER OF SHARES
Ordinary Shares	0.01	325,229,642

Set out below is the issued share capital of the Company as at 31 December 2019:

(AUDITED)	NOMINAL VALUE £	NUMBER OF SHARES
Ordinary Shares	0.01	312,302,305

Rights attaching to the Ordinary Shares

The holders of the shares are entitled to receive, and to participate in, any dividends declared in relation to the shares. The holders of the shares shall be entitled to all of the Parent Company's remaining net assets after taking into account any net assets attributable to other share classes in issue. The shares shall carry the right to receive notice of, attend and vote at general meetings of the Parent Company. The consent of the holders of shares will be required for the variation of any rights attached to the shares. The net return per share is calculated by dividing the net return on ordinary activities after taxation by the number of shares in issue.

Voting rights

Subject to any rights or restrictions attached to any shares, on a show of hands, every shareholder present in person has one vote and every proxy present who has been duly appointed by a shareholder entitled to vote has one vote, and on a poll, every shareholder (whether present in person or by proxy) has one vote for every share of which he is the holder. A shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way. In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the vote of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the register of members.

No shareholder shall have any right to vote at any general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, in respect of any share held by him unless all amounts presently payable by him in respect of that share have been paid.

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

Variation of rights & distribution on winding up

Subject to the provisions of the Companies Act 2006 as amended and every other statute for the time being in force concerning companies and affecting the Parent Company (the "Statutes"), if at any time the share capital of the Parent Company is divided into different classes of shares, the rights attached to any class may be varied either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class (but not otherwise) and may be so varied either whilst the Parent Company is a going concern or during or in contemplation of a winding-up.

At every such separate general meeting the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question (but at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum), any holder of shares of the class present in person or by proxy may demand a poll and every such holder shall on a poll have one vote for every share of the class held by him. Where the rights of only some of the shares of any class are to be varied, the foregoing provisions apply as if each group of shares of the class differently treated formed a separate class whose rights are to be varied.

The Parent Company has no fixed life. At the Company's AGM on 24 June 2020 the Company received a high level of support for the continuation of the Company as 86.6% of shares were voted in favour of continuation for an additional five-year period. Following that five-year period, and every five years thereafter, pursuant to the Articles, an ordinary resolution for the continuation of the Parent Company will be proposed at the annual general meeting of the Parent Company. Upon any such resolution not being passed, proposals will be put forward within three months after the date of the resolution to the effect that the Parent Company be wound up, liquidated, reconstructed or unitised.

If the Parent Company is wound up, the liquidator may divide among the shareholders in specie the whole or any part of the assets of the Parent Company and for that purpose, may value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders.

The table below shows the movement in shares during the period through 30 June 2020:

FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 JUNE 2020 (UNAUDITED)	SHARES IN ISSUE AT THE BEGINNING OF THE PERIOD	SHARES REPURCHASED	SHARES IN ISSUE AT THE END OF THE PERIOD
Ordinary Shares	312,302,305	(22,266,293)	290,036,012

The table below shows the movement in shares during the period through 30 June 2019:

FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 JUNE 2019 (UNAUDITED)	SHARES IN ISSUE AT THE BEGINNING OF THE PERIOD	SHARES REPURCHASED	SHARES IN ISSUE AT THE END OF THE PERIOD
Ordinary Shares	360,110,883	(34,881,241)	325,229,642

The table below shows the movement in shares during the period through 31 December 2019:

FOR THE YEAR FROM 1 JANUARY 2019 TO 31 DECEMBER 2019	SHARES IN ISSUE AT THE BEGINNING OF THE PERIOD	SHARES REPURCHASED	SHARES IN ISSUE AT THE END OF THE PERIOD
Ordinary Shares	360,110,883	(47,808,578)	312,302,305

Share buyback programme

During the period, the Company continued to repurchase shares through the share buyback programme. All shares bought back are held in treasury as at 30 June 2020. Details of the programme are as follows:

MONTH OF PURCHASE (UNAUDITED)	ORDINARY SHARES PURCHASED	AVERAGE PRICE PER SHARE	LOWEST PRICE PER SHARE	HIGHEST PRICE PER SHARE	TOTAL TREASURY SHARES
January 2020	1,824,187	80.52p	78.64p	81.00p	72,137,547
February 2020	1,153,000	81.30p	78.10p	82.29p	73,290,547
March 2020	3,513,837	62.26p	54.97p	80.00p	76,804,384
April 2020	-	0.00p	0.00p	0.00p	76,804,384
May 2020	4,259,700	61.57p	58.44p	62.83p	81,064,084
June 2020	11,515,569	69.18p	66.60p	71.50p	92,579,653

Other distributable reserve

During the period, the Company declared and paid dividends of £Nil (31 December 2019: £Nil, 30 June 2019: £Nil) from the other distributable reserve. Further, the cost of the buyback of ordinary shares as detailed above was funded by the other distributable reserve of £15,290,346 (31 December 2019: £35,049,382; 30 June 2019: £25,064,435).

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

12. DIVIDENDS PER SHARE

The following table summarises the amounts recognised as distributions to equity shareholders in the period:

	(UNAUDITED) 30 JUNE 2020	(UNAUDITED) 30 JUNE 2019	(AUDITED) 31 DECEMBER 2019
	£	£	£
2018 interim dividend of 2.00 pence per Ordinary Share paid on 4 April 2019	-	7,077,273	7,077,273
2019 interim dividend of 2.00 pence per Ordinary Share paid on 27 June 2019	-	6,804,777	6,804,777
2019 interim dividend of 2.00 pence per Ordinary Share paid on 19 September 2019	-	-	6,463,506
2019 interim dividend of 2.00 pence per Ordinary Share paid on 19 December 2019	-	-	6,282,264
2019 interim dividend of 2.00 pence per Ordinary Share paid on 2 April 2020	6,184,004	-	-
2020 interim dividend of 2.00 pence per Ordinary Share paid on 11 June 2020	6,116,226	-	-
Total	12,300,230	13,882,050	26,627,820

An interim dividend of 2.00 pence per Ordinary Share was declared by the Board on 20 August 2020 in respect of the period to 30 June 2020 and was paid to shareholders on 17 September 2020. The interim dividend has not been included as a liability in these accounts in accordance with International Accounting Standard 10: Events After the Balance Sheet Date.

13. RELATED PARTY TRANSACTIONS

Each of the Directors is entitled to receive a fee from the Parent Company at such rate as may be determined in accordance with the Articles. Save for the Chairman of the Board, the fees are £33,000 for each Director per annum. The Chairman's fee is £55,000 per annum. The chairman of the Audit and Valuation Committee may also receive additional fees for acting as the chairman of such a committee. The current fee for serving as the chairman of the Audit and Valuation Committee is £5,500 per annum.

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Parent Company. Mr. Richard Levy is a non-executive Director of the Parent Company and is not a member of any of the existing Board committees.

As at 30 June 2020, the Directors' interests in the Parent Company's shares were as follows:

		(UNAUDITED) 30 JUNE 2020	(UNAUDITED) 30 JUNE 2019	(AUDITED) 31 DECEMBER 2019
Kevin Ingram	Ordinary Shares	64,968	64,968	64,968
Mark Katzenellenbogen	Ordinary Shares	140,000	140,000	140,000
Richard Levy	Ordinary Shares	1,300,000	1,300,000	1,300,000
Elizabeth Passey	Ordinary Shares	10,000	10,000	10,000
Clive Peggram	Ordinary Shares	258,240	258,240	258,240

Investment management fees for the period ended 30 June 2020 are payable by the Parent Company to the Investment Manager and these are presented on the Consolidated Statement of Comprehensive Income. Details of investment management fees and performance fees payable during the year are disclosed in Note 8.

During 2020, as part of an amendment to the Investment Management Agreement, the Investment Manager continued to purchase shares of the Parent Company with 20% of its monthly management fee. The shares were purchased at the prevailing market price. As at 30 June 2020, the Investment Manager has purchased 3,377,094 (31 December 2019: 2,886,335; 30 June 2019: 2,494,108) shares.

As at 30 June 2020, Partners and Principals of the Investment Manager held 2,195,000 Ordinary Shares (31 December 2019: 2,195,000; 30 June 2019: 1,885,000) in the Parent Company.

The Group has invested in VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. The Investment Manager of the Parent Company also acts as manager to VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. The principal activity of VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. is to invest in alternative finance investments and related instruments with a view to achieving the Parent Company's investment objective. As at 30 June 2020, the Group owned 26% of VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. (31 December 2019: 26%; 30 June 2019: 26%) and the value of the Group's investment in VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. was £3,519,232 (31 December 2019: £3,841,798; 30 June 2019: £8,553,018).

The Group has invested in Larkdale III, L.P. The Investment Manager of the Parent Company also acts as manager to Larkdale III, L.P. As at 30 June 2020, the Group owned 52% of Larkdale III, L.P. (31 December 2019: 52%; 30 June 2019: 52%) and the value of the Group's investment in Larkdale III, L.P. was £200,828 (31 December 2019: £620,148; 30 June 2019: £1,464,291).

The Investment Manager may pay directly various expenses that are attributable to the Group. These expenses are allocated to and reimbursed by the Group to the Investment Manager as outlined in the Management Agreement. Any excess expense previously allocated to and paid by the Group to the Investment Manager will be reimbursed to the Group by the Investment Manager. At 30 June 2020, £20,369 was due to the Investment Manager (31 December 2019: £65,683; 30 June 2019: £59,762) and is included in the Other liabilities and accrued expenses balance on the Consolidated Statement of

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

Financial Position.

14. SUBSIDIARIES

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	NATURE OF INVESTMENT	(UNAUDITED) 30 JUNE 2020 PERCENTAGE OWNERSHIP	(UNAUDITED) 30 JUNE 2019 PERCENTAGE OWNERSHIP	(AUDITED) 31 DECEMBER 2019 PERCENTAGE OWNERSHIP
VPC Specialty Lending Investments Intermediate, L.P.	Investment vehicle	US	Limited partner interest	Sole limited partner	Sole limited partner	Sole limited partner
VPC Specialty Lending Investments Intermediate GP, LLC	General partner	US	Membership interest	Sole member	Sole member	Sole member
LIAB, L.P.	Investment vehicle	UK	Limited partner interest	Sole limited partner	Sole limited partner	Sole limited partner
LIAB GP, LLC	General partner	UK	Membership interest	Sole member	Sole member	Sole member
Fore London, L.P.	Investment vehicle	UK	Limited partner interest	Sole limited partner	Sole limited partner	Sole limited partner
Fore London GP, LLC	General partner	UK	Membership interest	Sole member	Sole member	Sole member
SVTW, L.P.	Investment vehicle	US	Limited partner interest	99%	99%	99%
SVTW GP, LLC	General partner	US	Membership interest	99%	99%	99%
Duxbury Court I, L.P.	Investment vehicle	US	Limited partner interest	95%	95%	95%
Duxbury Court I GP, LLC	General partner	US	Membership interest	95%	95%	95%
Drexel I, L.P.	Investment vehicle	US	Limited partner interest	53%	52%	52%
Drexel I GP, LLC	General partner	US	Membership interest	53%	52%	52%
Larkdale I, L.P.	Investment vehicle	US	Limited partner interest	61%	61%	61%
Larkdale I GP, LLC	General partner	US	Membership interest	61%	61%	61%

The subsidiaries listed above as investment vehicles are consolidated by the Group.

NAME	REGISTERED ADDRESS
VPC Specialty Lending Investments Intermediate, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
VPC Specialty Lending Investments Intermediate GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
LIAB, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
LIAB GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Fore London, L.P.	6 th Floor, 65 Gresham Street, London, EC2V 7NQ United Kingdom
Fore London GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
SVTW, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
SVTW GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Duxbury Court I, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Duxbury Court I GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Drexel I, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Drexel I GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Larkdale I, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Larkdale I GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606

15. NON-CONTROLLING INTERESTS

The non-controlling interests arise from investments in limited partnerships considered to be controlled subsidiaries into which there are other investors. The value of the non-controlling interests at 30 June 2020 represents the portion of the NAV of the controlled subsidiaries attributable to the other investors. As at 30 June 2020, the portion of the NAV attributable to non-controlling interests' investments totalled £103,376 (31 December 2019: £60,940; 30 June 2019: £90,403). In the Consolidated Statement of Comprehensive Income, the amount attributable to non-controlling interests represents the increase in the fair value of the investment in the period.

VPC SPECIALTY LENDING INVESTMENTS PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

16. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The Company, on 20 August 2020, declared a dividend of 2.00 pence per Ordinary Share for the three-month period ended 30 June 2020 and paid the dividend on 17 September 2020.

From 1 July 2020 to 28 September 2020, the Company had repurchased an additional 6,084,456 Ordinary Shares at an average price of 65.27 pence per Ordinary Share under the share buyback programme.

There were no other significant events subsequent to the period end.

VPC SPECIALTY LENDING INVESTMENTS PLC

SHAREHOLDER INFORMATION

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

DEFINITIONS OF TERMS AND PERFORMANCE MEASURES

The Group uses the terms and alternative performance measures below to present a measure of profitability which is aligned with the requirements of our investors and potential investors, to draw out meaningful subtotals of revenues and earnings and to provide additional information not required for disclosure under accounting standards to assist users of the accounts in gauging the profit levels of the Group. All terms and performance measures relate to past performance.

Discount to NAV – Calculated as the difference in the NAV (Cum Income) as at 30 June 2019 and the average price per share repurchased divided during the period divided by the NAV Cum (Income) as at 30 June 2019.

Gross Returns – Represents the return on shareholder's funds per share on investments of the Company before operating and other expenses of the Company.

Look-Through Gearing Ratio – The aggregate gearing of the Company and any investee entity (on a look-through basis, including borrowing through securitisations using SPVs) shall not exceed 1.50 times its NAV (1.5x).

Market Capitalisation – Month-end closing share price multiplied by the number of shares outstanding at month end.

NAV (Cum Income) or NAV or Net Asset Value – The value of assets of the Company less liabilities determined in accordance with the accounting principles adopted by the Company.

NAV (Cum Income) Return – The theoretical total return on shareholders' funds per share reflecting the change in NAV assuming that dividends paid to shareholders were reinvested at NAV at the time dividend was announced.

NAV (Ex Income) – The NAV of the Company, including current year capital returns and excluding current year revenue returns and unadjusted for dividends relating to revenue returns.

NAV (Ex Income) Return – The theoretical total return on shareholders' funds per share, excluding revenue returns, reflecting the change in NAV assuming that dividends paid to shareholders, unadjusted for dividends relating to revenue returns, were reinvested at NAV at the time dividend was announced.

NAV per Share (Cum Income) – The NAV (Cum Income) divided by the number of shares in issue.

NAV per Share (Ex Income) – The NAV (Ex Income) divided by the number of shares in issue.

Net Returns – Represents the return on shareholder's funds per share on investments of the Company after operating and other expenses of the Company.

Premium/(Discount) to NAV (Cum Income) – The amount by which the share price of the Company is either higher (at a premium) or lower (at a discount) than the NAV per Share (Cum Income), expressed as a percentage of the NAV per share.

Revenue Return – Represents the difference between the **NAV (Cum Income) Return** and the **NAV (Ex Income) Return** as defined above.

Share Price – Closing share price at month end (excluding dividends reinvested).

Total Shareholder Return – Calculated as the change in the traded share price from 31 December 2019 to 30 June 2020 plus the dividends declared during the first six months of 2020 divided by the traded share price as at 31 December 2019.

VPC SPECIALTY LENDING INVESTMENTS PLC

SHAREHOLDER INFORMATION *continued*

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

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