

Introduction to FundingKnight
July 2013



Transaction Summary

- GLI Finance is investing £1.5m in Funding Knight Holdings Limited (“FundingKnight”)
- Investment in the form of equity and preference shares in FundingKnight
- GLIF will own at least 20% stake
- Geoff Miller to join the FundingKnight board as Non Executive Director

Strategically important for both parties

GLIF

- Part of strategy of focusing on niche SME lenders
- Further geographic diversification away from US
- Adds further loan origination and investment platform
- Loans deliver target double digit returns

FundingKnight

- Cash investment provides the working capital to support the rapid growth anticipated in the business over the next two years
- GLIF to participate in new lending and Loan Exchange
- Board enhanced by appointment of Geoff Miller

Market place – crowd lending

- P2P market more developed than P2B
- Both P2P and P2B are developed markets in US, with one P2B lender having lent > \$1bn to date
- In UK, Zopa is largest P2P (founded 2005) – £333m lent*
- P2B in UK – FundingKnight is one of 5 significant entrants with FundingCircle (launched 2010) having already lent 123m*
- Rest of World – some P2P, but almost no P2B

**Figures as at 11 July 2013, source:
Company websites*

Market place - UK

- P2B lending started in 2010 and already exceeds £150m, expected to more than double each year
- Recent survey by NESTA estimated P2B market could reach over £12bn per annum
- Benefit from expected reduction in lending by 5 major banks - currently provide over 90% of corporate lending
- Reduction will be felt strongly at smaller end of market (below £1m) - banks can no longer service economically
- Government policy supports growth of crowd lending - provided £25m to two platforms for co-lending and bringing in regulation for this market in early 2014



Overview - FundingKnight

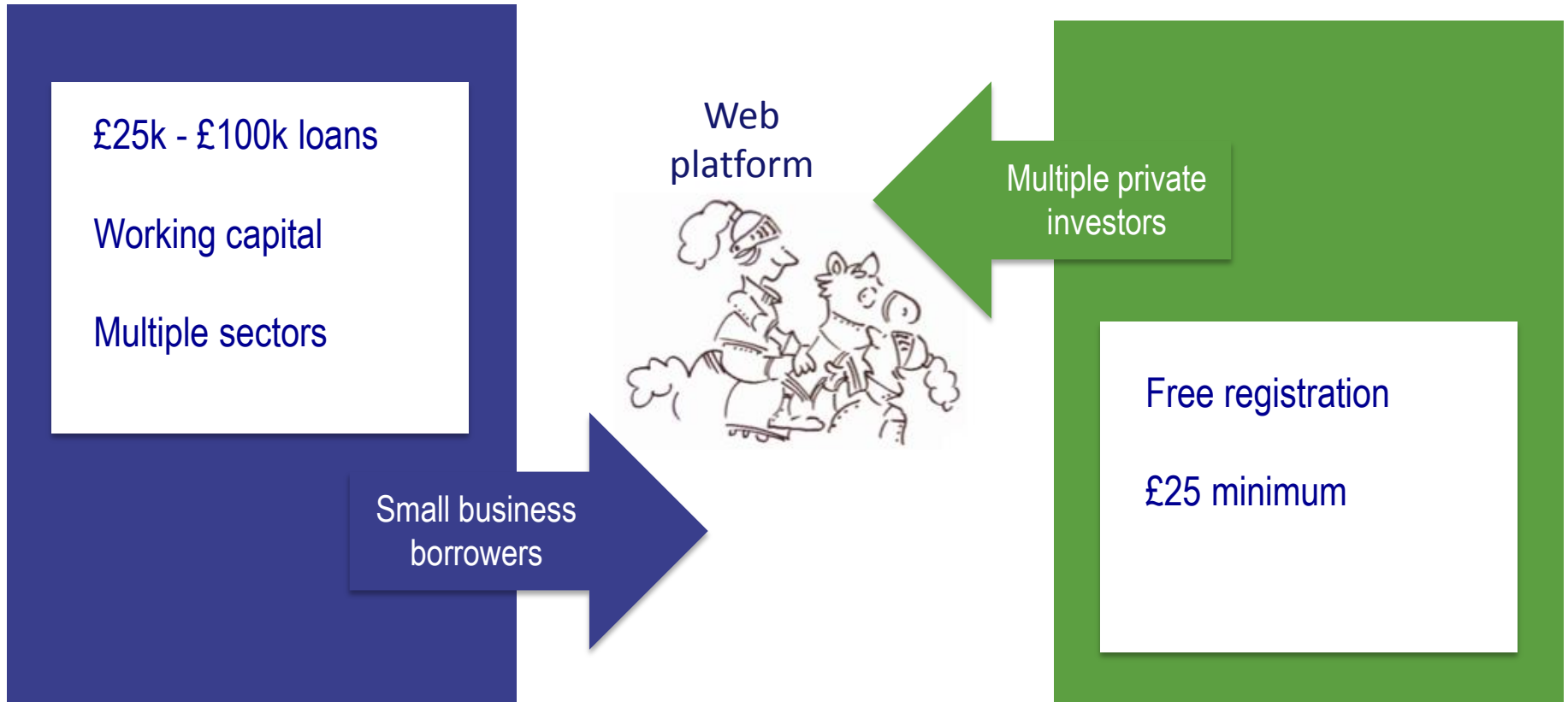
- A web platform for “crowd-lending” to small businesses
- History
 - Formed in 2011 by Graeme Marshall
 - 2012 : built website
 - 2013: started business
- Status June 2013
 - Web platform fully functional
 - First £1m lent (25 loans)
 - 500+ registered lenders
 - 1,000 + trades on Loan Exchange (secondary market)

The crowdfunding environment

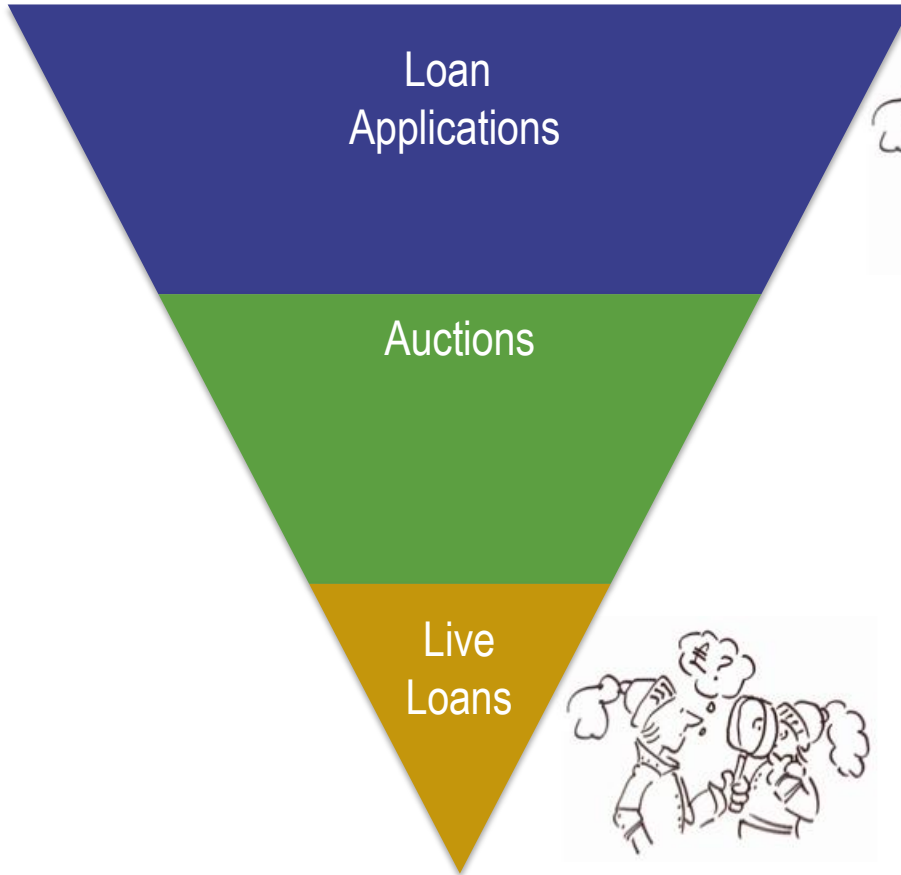
A typology of crowdfunding models

	Form of contribution	Form of return	Motivation of funder
Donation Crowdfunding	Donation	Intangible benefits.	Intrinsic and social motivation.
Reward Crowdfunding	Donation Pre-purchase	Rewards but also intangible benefits.	Combination of intrinsic and social motivation and desire for reward.
Peer-to-peer lending	Loan	Repayment of loan with interest.	Primarily financially motivated.
Equity Crowdfunding	Investment	Return on investment in time if the business does well. Rewards also offered sometimes. Intangible benefits another factor for many investors.	Combination of intrinsic, social and financial motivation.

Matching borrowers and lenders



Process



- Screening
- External checks
- Appraise mgmnt
- Bespoke analysis
- Info for site

Credit rating

7 day auctions




Loan Exchange provides 2nd market

Auctions

- Competitive bidding through reverse auction process – after loan filled, lowest bids win
- Multiple bids allowed of £25 upwards
- Lenders may have bids placed automatically – Autobid

Autobid preferences





Autobid lets you start lending without the need to research individual loan opportunities.

Auction shield rating	Bid interest rate	Bid amount
	8.00%	£500.00
	9.00%	£1,000.00
	10.00%	£250.00

Change

The Loan Exchange

Current offers grid

Loan	Shield rating	Remaining term	My capital in loan	< £50	£50 - £100	£100 - £250	£250 - £500	£500 - £1000	£1000 +	All
1st ... <i>Improve Nursi...</i> More Info		35	£126.85	8 offers £233.34 9.27% Show	4 offers £210.00 9.17% Show	4 offers £400.00 9.44% Show	3 offers £750.00 9.62% Show	2 offers £1,000.00 9.82% Show	1 offer £1,000.00 10.02% Show	22 offers £3,593.34 10.02% Show
a-b-a-c-u-s ... <i>Expansion - 1...</i> More Info		6	£59.65	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show
a-b-a-c-u-s ... <i>Expansion - 3...</i> More Info		30	£121.71	0 offers £0.00 n/a Show	1 offer £50.00 4.44% Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	0 offers £0.00 n/a Show	1 offer £50.00 4.44% Show
Cardiff ... <i>Delivery of n...</i> More Info		35	£100.00	5 offers £140.00 9.13% Show	4 offers £200.00 9.26% Show	4 offers £400.00 9.55% Show	3 offers £750.00 9.67% Show	2 offers £1,000.00 9.26% Show	1 offer £1,000.00 9.50% Show	19 offers £3,490.00 9.67% Show



Loan screening process

- Core criteria eliminates start-ups and tainted histories
- Initial vetting for application via introducers
- Background of directors and major shareholders
- Completeness of financial information
- Analysis
- Formal interview with management

Engagement with management is a critical part of our process

From analysis to auction close

1. Credit analyst report

- *Financial analysis*
- *Recommended terms and max int rate*
- *Loan display (text by borrower)*

2. Credit Committee input

3. Approval by Head of Lending

4. Pre listing

- *Maximum interest rate*
- *Covenants (private)*
- *Documentation executed (incl PG)*
- *Borrower approves loan presentation*

5. Lenders ask public questions during auction

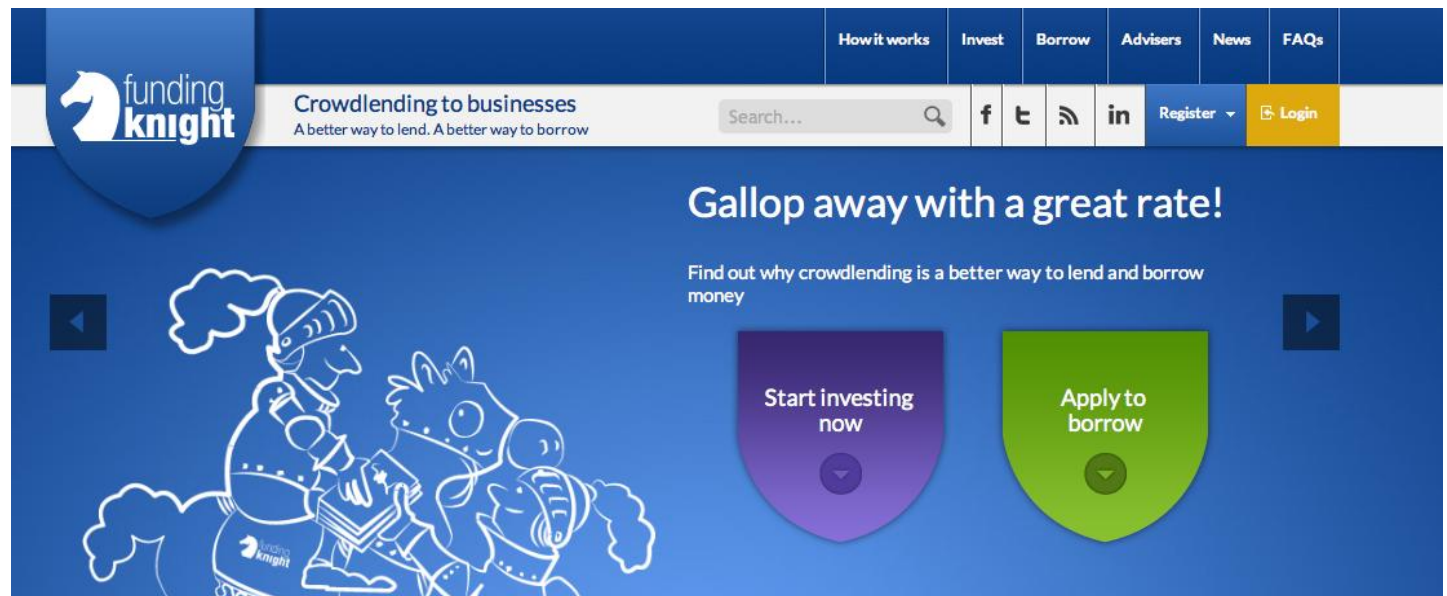
6. Loan drawn down within 1 hour of auction

Our loans to date - average...

Loan size	£46k
Loan length	25 months
Time to auction	17 days
Turnover	£2.1m
EBIT	£150k
Total assets	£1.8m
Net worth	£770k
Capital adequacy ratio	31%
Period in business	13 years

Website

- Our own IP - Scalable architecture
- Current team: Head of Technology plus 3 developers
- Regular releases to improve user experience and management information



Marketing matrix overview

Integrated approach based on three principles 1) Awareness 2) varied budget allocation to activities depending on ROI 3) constant testing and refinement of strategy to improve CPA

Lender	Borrower	Adviser
Paid search	Paid search	Paid search
Media relations & online	Media relations & online	Media relations & online
Social media	Social media	Social media
Direct (email) (mail)	Direct (email) (mail)	Direct (email) (mail)
Affiliates	Affiliates	Associations and partnerships
Events and seminars	Round table / events and conferences	Events / conferences and seminars
Advertising	Advertising	Advertising
Registered Lender email comms	Referral scheme	Monthly registered newsletter
Referral scheme	Prospect newsletter	Monthly prospect newsletter
Monthly newsletter		
Prospect newsletter		
	Brand development - evolution of the brand messaging and corporate image	
	Website content and functionality enhancements	
	Internal communications	



Audience matrix overview

This is not an exhaustive **Lender** and **Borrower** audience matrix but provides a snapshot of our audience targets.

Lender - typical targets		Borrower	
<i>Audience target</i>	<i>Tactic</i>	<i>Audience target</i>	<i>Tactic</i>
High Net Worth	Networking / direct	Direct applications	Direct / Media
Trusts and corporates	Bespoke selling	Corporate finance	Events / Direct / telemarketing
Retirement market	Direct / partnerships	Advisers	Direct / telemarketing
P2P regular investor	Direct / media	Partnerships - accountants / lawyers	Direct / telemarketing / Media
Nesters, empty nesters etc	Media / partnerships/ referral	Affiliates / aggregator's	Direct / Media
ISA / CTF audience	Media / networking		
Stocks & shares audience	Media / networking		
Mass market referral	Direct / referral		
		Media	

Government regulation

Direct means - marketing activities - e.g. online advertising, email marketing etc



The Business – Fee Model

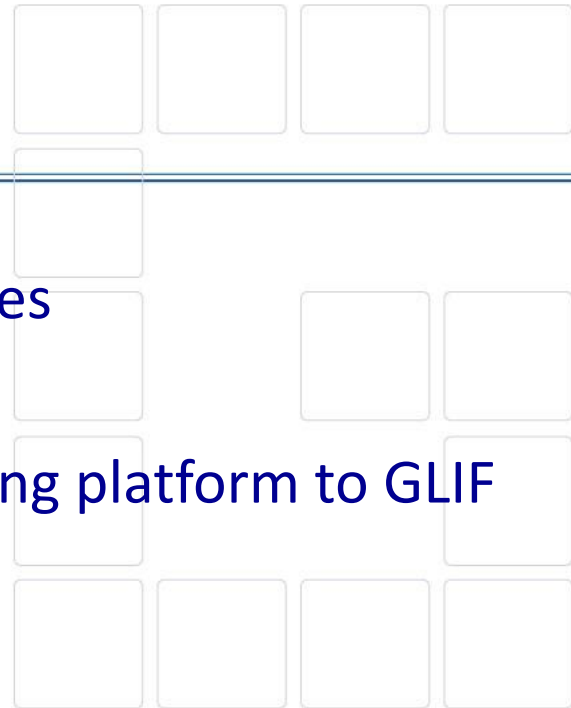
- No fees to Lenders
- Fees from borrowers
 - arrangement 250+ bps
 - repayment 100+ bps
 - application fee to ensure commitment
- Fees on Loan Exchange – 100 bps charged to sellers



The Business – Focused on Profits

- Targeting profitability in H2 2014
 - Results driven by level of activity and marketing spend
 - Marketplace will experience strong growth for at least the next three years. Early entrants will benefit
- Opportunities for licensing platform overseas

Conclusion



- Excellent strategic fit for both parties
- Adds further important niche lending platform to GLIF delivering target returns
- FundingKnight early and significant entrant into fast growing market for P2B lenders
- P2B lending expected to more than double each year