Funding Circle Holdings plc
Full Year 2021 Results
Embargoed until 7.00am, 10 March 2022

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

Funding Circle Holdings plc ("Funding Circle") today announces results for the year ended 31 December 2021.

Lisa Jacobs CEO, said:

"2021 was a successful year for Funding Circle. We continued to deliver a superior customer experience through our world-class technology, with over 70% of UK applications now receiving an instant decision. SMEs are increasingly using digital channels to manage all aspects of their business and this trend is here to stay.

Our focus for the last two years has been on profitable growth and today's results highlight the excellent progress we have made. I am particularly proud to announce AEBITDA of £92 million and £64 million of operating profit, exceeding our previous guidance.

We are in a strong position as a business and as we look ahead to the rest of 2022 and beyond, there is a bright future ahead of us. A decade of R&D is now coming to fruition as we begin to empower small businesses to not only borrow, but pay and spend as well".

Performance highlights

	2021 £m	2020 £m	% change year-on-year
Loans under Management ("LuM")	4,457	4,214	5.8%
Originations	2,296	2,742	(16%)
Fee income ("Operating income")	165.5	155.7	6.3%
Net investment income[1]	41.4	66.3	(38%)
Total income	206.9	222.0	(7%)
Fair value gains/(losses)	28.6	(118.3)	N/M
Net income	235.5	103.7	127%
AEBITDA[2]	91.8	(63.8)	N/M
Operating profit (loss)	64.2	(106.3)	N/M
Profit (Loss) before taxation	64.1	(108.1)	N/M
Cash	224.0	103.3	117%
Net Assets	288.0	217.6	32%

Financial summary:

- Operating income of £165.5 million (2020: £155.7 million) up 6.3% driven by higher servicing fees.
- Investment income of £41.4 million (2020: £66.3 million) down 38% as investments were monetised in line with strategy.
- Total Income of £206.9 million (2020: £222.0 million) down 7% as a result of anticipated lower investment income.
- Fair Value gain of £28.6 million (2020: losses of £118.3 million) due to positive revaluations, reflecting underlying credit performance.
- Net Income of £235.5 million (2020: 103.7 million) up 127% reflecting positive revaluations in Fair Value.
- Loans under management of £4.46 billion (2020: £4.21 billion) up 5.8% and originations of £2.30 billion (2020: £2.74 billion) down 16% year-on-year, reflecting the conclusion of CBILS and PPP.
- AEBITDA of £91.8 million (2020: negative £63.8 million); UK business AEBITDA of £61.9 million (2020: £6.5 million).
- Operating expenses reduced 12% to £167.4 million (2020: £191.3 million) following cost management initiatives.
- Operating profit of £64.2 million (2020: negative £106.3 million), UK business: £44.3 million operating profit (2020: negative £7.9 million).
- Net assets of £288.0 million (2020: £217.6 million), up 32% and comprising £224.0 million cash (2020: £103.3 million).

[1] Net investment income refers to investment income less investment expense.

[2] ("AEBITDA") Adjusted EBITDA represents operating profit/(loss) before depreciation and amortisation, share-based payment charges, associated social security costs, foreign exchange gains/(losses), and exceptional items. A reconciliation between AEBITDA and operating profit/(loss) is shown in the Business Review.

Operating and Strategic Summary:

- **We have a proven business model:**
  - The quality and resilience of the loans Funding Circle originates has been proven through the cycle.
  - All UK and US cohorts expected to deliver positive annualised returns with projections for Covid-affected cohorts upgraded.
  - We continue to see strong demand from investors to fund loans in the UK and US.
  - Covid has led to a rapid acceleration in the shift towards online in small business lending and this increased digital usage is here to stay. 68% of SMEs are looking to manage as many aspects of their business via digital channels as possible going forward[3].

- **We have a strong leadership position in the UK:**
  - Funding Circle is the leading SME loans platform in the UK and has over 10 years' experience of lending to SMEs.
    - Approximately £4bn of loans under management in the UK (Dec 20: £3.3bn).
  - The superior experience we deliver to customers leads to high customer advocacy and stable repeat rates.
    - Net promoter score of 82 in the UK.
    - On average, UK customers take out 2 loans every 5 years.

- **Our world-class technology continues to deliver a superior customer experience:**
  - At Funding Circle we are reinventing small business lending through technology and machine learning.
  - Our world-class tech platform delivers significant customer benefits and creates a deep moat around our business.
  - Over the past 10 years, we've built the capability for SMEs in the UK to receive an instant lending decision. Today, more than 70% of applications receive an instant decision in the UK. This figure is up from c.60% at our Half Year results in September.
  - In the UK, our 8th generation risk models significantly outperform traditional bureau scores, optimising access whilst delivering strong investor returns.
  - Our Decision Engine platform generates personalised customer journeys, pricing and propositions which helps to increase conversion.
  - Our data lake has over 2 billion data points on SMEs across the UK and US enabling us to build accurate and predictive models.

- **We have ambitious growth opportunities over the medium-term:**
  - A combination of our strong financial position, world-class technology and superior customer experiences has meant that today we are at an inflection point.
  - Our medium term plan is focused on empowering small businesses to not only borrow, but pay and spend as well. This will make Funding Circle a multi-product platform, serving a direct and embedded audience.
  - In order to deliver on this opportunity we are focused on three pillars:

    - **Attract more businesses:** *strengthen direct and indirect channels, and embed natively in more partner environments through our API.*

    - **Say yes to more businesses:** *optimise our platform, expand our products, and leverage our marketplace for everyone else.*

    - **#1 in new products:** *empower small businesses to not only borrow, but pay and spend as well.*

Launch of Funding Circle's Economic Impact Report:

Alongside today's results, Funding Circle, in partnership with Oxford Economics, today publishes its 2021 Economic Impact Report. Key findings from the report include:

- In 2021, lending through Funding Circle's UK platform helped generate more than £7bn in GDP while creating and sustaining 100,000 jobs.
- The share of SMEs planning to increase investment has doubled since Q2 2020 and is now at pre-pandemic levels.
- 60% of SMEs that took a Funding Circle loan in 2021 were first-time users of online finance; almost eight out of ten of these say they will come back to Funding Circle first in future.
- Three-quarters of Funding Circle's customers expect to require further finance and 40% have said they expect to require finance in the next 12 months, primarily for growth or investment. The proportion of SMEs happy to use finance to meet their growth aspirations is at its highest level since 2016.
- The full report can be found here: https://www.fundingcircle.com/uk/impact

Outlook:

The business is in the strongest position it has been and we have proven the resilience of our model over the last two years. The economic environment remains uncertain and, as previously highlighted, the market continues to be distorted as a result of Covid Government loan schemes. However, as demand returns to pre-Covid levels through 2022, we are well placed to capture the opportunity going forward.

[3] https://www.ey.com/en_gl/banking-capital-markets/the-five-step-journey-to-sme-banking-transformation

2022 FY guidance

- Group operating income will be in the range of £145m - £155m as we start to see demand normalising.
- Group investment income will continue to decline. Investment income will be in the £10m - £15m range.
- Group total income will therefore be in the range of £155m - £170m.
- The business will continue to be AEBITDA positive with a skew to H2.

2025 guidance

- By 2025 we expect UK total income (primarily operating income) of at least £220m. 2025 AEBITDA margins at 30-35%.
- We anticipate at least £70m of US total income (primarily operating income) by 2025 having reached AEBITDA breakeven during 2024 (incurring maximum cumulative AEBITDA losses of c.£25m to get to breakeven).
- For FlexiPay (including FlexiPay Card), we see significant growth opportunities between now and 2025 but it remains early to be precise on income expectations.
- By 2025, all segments of the Group to be profitable.

Board changes:

As announced at the half year results in September 2021, Samir Desai stepped down from his role as CEO on January 1st and was replaced by Lisa Jacobs as CEO. Samir remains a Non-Executive Director on the Board.

Changes to retail lending:

Today we have confirmed to customers that we are permanently closing the retail platform to new investments. Retail lending represents only c.5% of Funding Circle's total loans under management and has been closed since March 2020.

Retail investors in the UK will continue to receive repayments of interest and principal every month and can withdraw these funds at any time. Since launch in 2010, retail investors have earned average net returns (after fees and bad debts) of c.5% annually lending to businesses on the platform.

Analyst presentation:

A presentation for analysts will be held today via webcast at 9:30am. Please contact IR@fundingcircle.com if you wish to attend.

An on-demand replay will also be available on the Funding Circle website (corporate.fundingcircle.com) following the presentation.

Investor relations and media relations:

Investor Relations
David de Koning - Director of Investor Relations and Communications (0203 927 3893)

Media relations
Headland Consultancy: Mike Smith / Stephen Malthouse (0203 805 4822)

About Funding Circle:

Funding Circle (LSE: FCH) is a small and medium enterprise ("SME") loans platform. Since launching in 2010, investors and lenders across Funding Circle's geographies - including banks, asset management companies, insurance companies, government-backed entities, retail investors and funds - have lent more than £14 billion to more than 120,000 businesses globally.

Forward looking statements and other important information:

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

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

Business Review

At Funding Circle we deliver an amazing customer experience through technology, machine learning and data science.

Over the past 10 years, we've revolutionised SME lending and built the capability for SMEs in the UK to receive an instant lending decision. This is a first in SME term lending.

Today, as the leading global platform for small business loans we have helped more than 120,000 small businesses to access more than £14 billion. Our investment in technology has resulted in strong customer satisfaction scores and high repeat rates, helping us to grow alongside our small businesses. Our proven model has been demonstrated through the cycle as seen by the fact that every cohort of loans is expected to deliver positive returns to investors. This resilience of the loan portfolio has proven attractive to institutional investors, with high levels of demand to fund loans in both the UK and US.

We believe that, as we get bigger and help more small businesses access the finance they need to grow, we will create a stronger platform that drives significant competitive advantage. This creates a virtuous circle that will enable us to continue to help thousands of small businesses around the world and drive market share.

2021 overview

During the first half of 2021 we continued to provide loans through SME government-guarantee schemes in both the UK and US. The Coronavirus Business Interruption Loan Scheme ("CBILS") in the UK ended on 31 March 2021 with applications received by that date continuing to be processed until June 2021. The Paycheck Protection Program ("PPP") through the Small Business Administration ("SBA") in the US closed on 4 May 2021.

Following the end of these schemes, in the UK we relaunched our core product alongside the Recovery Loan Scheme ("RLS"), a new 80% government-guaranteed scheme introduced following CBILS. RLS is expected to cease in June 2022 and we will transition to operating solely our core product by the end of H1. In the US we also relaunched our core product for SMEs following the completion of PPP.

As a result of these schemes running through 2021, originations for the year were weighted towards the first half of the year. Following the relaunch of core loans in both the UK and US, we saw continued growth quarter on quarter from June 2021.

Originations

			2021			2020
	H1	H2	**FY**	H1	H2	FY
	£m	£m	**£m**	£m	£m	£m
United Kingdom	1,381	591	**1,972**	662	1,449	2,111
United States	247	69	**316**	410	171	581
Developing Markets	7	1	**8**	40	10	50
	1,635	661	**2,296**	1,112	1,630	2,742

The loans under each of the government schemes have different characteristics, and therefore the income that Funding Circle earns on them is different:

- CBILS – for loans issued under this scheme, the British Business Bank ("BBB") provided an 80% guarantee to lenders, should the loan default, in exchange for a fee from the investors. The BBB paid the origination fees on behalf of borrowers together with the interest due on the loans for the first year. No principal repayments were required in the first year. Thereafter borrowers pay the interest and principal repayments. Investors continue to pay servicing fees.

- RLS – for loans under this scheme, the BBB continued to provide a guarantee to lenders to ensure that there was sufficient availability from lenders to support small businesses, again in exchange for a fee from the investors (which in Funding Circle's case, as with CBILS, was shared proportionately among Funding Circle and its applicable investors, with Funding Circle's share of both the loan amounts and fee being approximately 1% of the total). The loans then had characteristics similar to the core loan product with borrowers paying the origination fees, interest and repayments and investors paying the servicing fees. However the borrower, not the BBB, pays the fees and interest in the first year.

- PPP – the loans issued under the PPP scheme have very different characteristics to those under CBILS or RLS. Under this scheme, Funding Circle earns an origination fee, paid by the SBA, but there are no servicing fees associated with the loans. This is because borrowers are allowed to apply for the loans to be forgiven by the SBA if the funds are used to pay eligible expenses such as payroll costs of employees.

Loans under management

	31 December 2021 £m	31 December 2020 £m	Change %
United Kingdom	**3,944**	3,271	21%
United States	**425**	759	(44%)
Developing Markets	**88**	184	(52%)
	4,457	4,214	6%

Loans under management were £4,457 million at 31 December 2021, up 6% on the prior year. This was driven by the strong origination performance in the UK during the year, especially in H1. The loans under management in the US declined in the year as previously originated loans continued to repay and borrowers who had taken out PPP loans were applying for and getting forgiveness of those loans.

Geographic highlights

Net income/(loss)	**United Kingdom £m**	**United States £m**	**Developing Markets £m**	**2021 Total £m**	United Kingdom £m	United States £m	Developing Markets £m	2020 Total £m
Fee income ("operating income")	137.7	25.1	2.7	165.5	123.9	25.7	6.1	155.7
Net Investment income	21.7	19.7	-	41.4	29.0	37.3	-	66.3
Total income	**159.4**	**44.8**	**2.7**	**206.9**	152.9	63.0	6.1	222.0
Fair value gains/(losses)	10.5	18.1	-	28.6	(43.8)	(74.5)	-	(118.3)
Net income/(loss)	**169.9**	**62.9**	**2.7**	**235.5**	109.1	(11.5)	6.1	103.7

Segment profit	**United Kingdom £m**	**United States £m**	**Developing Markets £m**	**2021 Total £m**	United Kingdom £m	United States £m	Developing Markets £m	2020 Total £m
Adjusted EBITDA	**61.9**	**28.4**	**1.5**	**91.8**	6.5	(62.4)	(7.9)	(63.8)
Depreciation and amortisation	(9.7)	(4.1)	(0.1)	(13.9)	(9.4)	(6.5)	(1.3)	(17.2)
Share-based payments and social security costs	(7.6)	(1.3)	-	(8.9)	(5.0)	(1.2)	(0.4)	(6.6)
Foreign exchange losses	(0.3)	(0.6)	-	(0.9)	-	-	-	-
Exceptional items	-	(3.9)	-	(3.9)	-	(13.5)	(5.2)	(18.7)
Operating profit/(loss)	**44.3**	**18.5**	**1.4**	**64.2**	(7.9)	(83.6)	(14.8)	(106.3)
Operating AEBITDA[4]	*29.7*	*(9.4)*	*1.5*	*21.8*	*21.4*	*(25.3)*	*(7.9)*	*(11.8)*
Investment AEBITDA[4]	*32.2*	*37.8*	*-*	*70.0*	*(14.9)*	*(37.1)*	*-*	*(52.0)*

United Kingdom

During the year, the UK originated £1,972 million (2020: £2,111 million), with loans under management growing by 21% to £3,944 million. Whilst transaction fees were 7% lower than 2020, in line with originations, the strong growth in loans under management drove higher servicing fees and resulted in operating income of £137.7 million (2020: £123.9 million).

Investment income was lower than in 2020, driven by the continuing paying down of loans in the investment vehicles and, in November 2021, the UK sold the loans held within its warehouse vehicle, crystallising c.£32 million of cash after paying off the bank debt associated with the vehicle.

The SME loans that are held in the investment vehicles are carried on the balance sheet at fair value. With improved actual performance and prospects for small businesses, as the economy has opened up, compared to the expectations at 31 December 2020 when the country was still under a full lockdown, the fair value of the loans has improved materially resulting in a fair value gain of £10.5 million (2020: loss of £43.8 million). This helped drive net income to £169.9 million (2020: £109.1 million).

Marketing costs remained at similar levels to 2020 of c.29% of operating income with other costs remaining consistent year-on-year. The UK generated adjusted EBITDA of £61.9 million (2020: £6.5 million) and an operating profit of £44.3 million (2020: loss of £7.9 million).

[4] Investment AEBITDA is defined as investment income, investment expense and fair value adjustments, and operating AEBITDA represents AEBITDA excluding investment AEBITDA.

United States

The US had a strong first six months of trading in 2021 as it continued to originate PPP loans before reverting to its core product in June 2021 as PPP ended.

In July 2020, the US business was granted access to the use of the Federal Reserve's PPP liquidity facility ("PPPLF") although PPP was paused between September and December 2020 in the run up to the US elections, before relaunching in January 2021.

Using the PPPLF allowed for lending to be undertaken with funds coming directly from this facility. Prior to that date, all PPP lending was done through our marketplace (referral) model for which we earned reduced origination fees.

Accordingly, whilst total origination in 2021 totalled £316 million compared to £581 million in 2020, operating income for the US business remained at consistent levels to 2020 at £25.1 million.

Consistent with the UK, the investment vehicles continued to amortise down and in June 2021, the US business sold loans held in the US warehouse for c.£38 million of net cash proceeds. Together these led to investment income reducing to £19.7 million (2020: £37.3 million).

The improved economic outlook in the US compared to the view as at 31 December 2020, together with the strength and resilience of our borrowers, led to material improvements in fair value with a fair value gain of £18.1 million (2020: loss of £74.5 million) and drove investment AEBITDA (being net investment income and fair value gains/(losses)) to £37.8 million (2020: loss of £37.1 million). Operating profit was £18.5 million (2020: loss of £83.6 million).

In the prior year, the Group announced that it was restructuring the US operations, downsizing the premises in San Francisco and reducing the headcount across the business. This, coupled with reduced investor incentives paid in the early stages of PPP, led to reduced costs of c.£13 million and an improvement in the operating AEBITDA loss, reducing to a loss £9.4 million compared to a loss in 2020 of £25.3 million. This reduction was also impacted by a stronger pound with the average $:£ exchange rate of $1.37:£1 in 2021 compared to $1.28:£1 in 2020.

Announcement of Medium Term Plan

Today we are announcing our new medium term plan which is focused on helping small businesses to not only borrow, but pay and spend as well. This will make Funding Circle a multi-product platform, serving a direct and embedded audience.

The new medium-term plan is based on three strategic pillars:

- attract more businesses
- say yes to more businesses
- #1 in new products

Attract more businesses
Strengthen direct and indirect channels, and embed natively in more partner environments through our API.

We're working on a number of areas, including growing and improving our existing distribution channels, and leveraging our market-leading technology. We're particularly excited about embedding our services into our partners' environments in both the UK and the US.

In the UK, we've created a new capability to enable partners to seamlessly offer Funding Circle loans to SMEs within their own website and we announced two new partners – Capitalise and Funding Options – in 2021, with more to follow in 2022. In the US, we're developing our Lending as a Service ("LaaS") partnership programme with banks and other large SME providers who are looking to leverage our technology platform to provide small business loans to their customers.

Through these developments, we're deepening key relationships and increasing our distribution potential. It's a unique proposition that will help us extend our reach and attract more businesses in the UK and the US.

Say yes to more businesses
Optimise our platform, expand our products and leverage our marketplace for everyone else.

As part of our focus on saying yes to more customers, we want to offer every customer that comes to Funding Circle a personalised journey that suit their needs, ensuring we deliver the right product to every applicant. This will mean we increase the conversion of the quality applications we receive today.

In order to deliver the right product to every applicant we will launch new risk segments and expand our marketplace offering in both the UK and US. This will connect borrowers with other lenders in the market, offering further products beyond our current range, such as larger loans, asset finance and invoice finance.

#1 in new products
Empower small businesses to not only borrow, but to pay and spend as well.

Since launching in August 2021, our beta trial of FlexiPay has exceeded our expectations and we have seen high levels of engagement from c.850 trial customers.

- Total value of credit limits approved: £11.8m with £7.6m originated.
- Average FlexiPay payment is 20% higher than expected.
- Average value of transactions is double our initial expectations.

In 2022, we expanded the trial to new customers and will launch in full in Q3 2022.

We will also launch FlexiPay Card in the UK to help SMEs settle regular payments and meet expenditure needs. We expect to launch to a selection of our existing customers by the end of 2022.

Finance review

Overview

The financial year has seen significant growth in net income and operating profit compared to the previous year. The Group's operating profit of £64.2 million compared to a loss of £106.3 million in 2020.

The drivers for this are strong originations, record loans under management, cost actions and the quality of our underwriting coming through. The results also benefited from the improved economic outlook and the positive impact this has had on the value of the SME loans held on balance sheet and the corresponding fair value gains/(losses). The prior year included one-off exceptional items following the reorganisation of the US and Developing Markets businesses.

Profit and loss

	2021			2020		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Transaction fees	115.0	-	115.0	122.5	-	122.5
Servicing fees	47.0	-	47.0	30.2	-	30.2
Other income	3.5	-	3.5	3.0	-	3.0
Fee income ("operating income")	**165.5**	**-**	**165.5**	155.7	-	155.7
Investment income	53.7	-	53.7	89.0	-	89.0
Investment expense	(12.3)	-	(12.3)	(22.7)	-	(22.7)
Total income	**206.9**	**-**	**206.9**	222.0	-	222.0
Fair value gains/(losses)	28.6	-	28.6	(118.3)	-	(118.3)
Net income	**235.5**		**235.5**	103.7	-	103.7
People costs	(77.7)	-	(77.7)	(81.3)	(4.0)	(85.3)
Marketing costs	(46.9)	-	(46.9)	(46.8)	-	(46.8)
Depreciation, amortisation and impairment	(13.9)	(3.9)	(17.8)	(17.2)	(13.7)	(30.9)
Loan repurchase credit/(charge)	0.1	-	0.1	(6.2)	-	(6.2)
Other costs	(29.0)	-	(29.0)	(39.8)	(1.0)	(40.8)
Operating expenses	(167.4)	(3.9)	(171.3)	(191.3)	(18.7)	(210.0)
Operating profit/(loss)	**68.1**	**(3.9)**	**64.2**	(87.6)	(18.7)	(106.3)

Total income which consists of operating income and investment income less investment expense, totalled £206.9 million (2020: £222.0 million). The reduction was principally due to the reduced net investment income.

Operating income which includes transaction fees, service fees and other income, was £165.5 million (2020: £155.7 million).

- *Transaction fees*, being the fees Funding Circle earns on originations, were £115.0 million compared to £122.5 million in 2020. This small reduction reflects the 7 months of CBILS originations in 2020 from May 2020 onwards compared to 5 months during 2021 up until May 2021.

  The yields on CBILS loans in the UK were set at 4.75% and yields on subsequent UK lending have been at similar levels. The yields on the US PPP loans were nearly 9% in 2021 driven by i) the use of the PPP liquidity facility to originate loans directly rather than referring them to our partners for a referral fee and ii) following the extension of the programme, PPP loans in 2021 were generally lower value loans which attracted a higher yield. Yields post-PPP in the US have normalised to c.4.50%.

- *Servicing fees*, being the annual fees for servicing loans under management, increased to £47.0 million following the strong origination levels in the UK which increase loans under management. Servicing yields on CBILS loans were fixed at 1.25% although there are no servicing fees earned on PPP loans.

- *Other income* represents a fee premium we receive from certain institutional investors in respect of buying back defaulted loans under a historical loan purchase commitment together with collection fees where we are able to charge a fee to investors for recovering monies on defaulted loans. Other income remained consistent with 2020.

Net investment income represents the investment income, less investment expense, on loans invested within Funding Circle's investment vehicles. No new loans were originated in the securitisation vehicles during the year and the net investment income earned has continued to reduce as loans paid down. Additionally the reduction was accelerated following the monetisation of the warehouse vehicles through selling of the loans and the repayment of the associated bank debt.

Fair value gains/(losses) represent the gains or losses arising on the Group's investments in SME loans held on balance sheet that are carried at fair value. The investments are valued using discounted cash flows that take into account projected cash flows from the underlying SME loans including principal and interest repayments, prepayment rates and expected levels of defaults and recoveries.

At 31 December 2020, the UK was still in lockdown with significant uncertainties for the prospects of SME businesses. Since then, there has been an overall improved view of the economic outlook and accordingly there has been a more favourable view on the expected default levels and recoveries with consequential improvements to the valuation of the loans held on balance sheet. As a result, fair value gains in the year were £28.6 million (2020: loss of £118.3 million).

Net income, defined as total income after fair value adjustments was £235.5 million (2020: £103.7 million).

Operating expenses

Operating expenses have reduced overall by £38.7 million to £171.3 million. Some of this reduction is caused by reduced exceptional costs. When these costs are excluded, operating expenses have dropped by £23.9 million. This reduction was largely a result of the annualisation of cost savings following the reorganisation of the US and Developing Markets businesses in 2020.

People costs (including contractors) remain the Group's largest cost. Before capitalised development spend is taken into account, the total wage bill (including contractors) was £85.9 million (2020: £94.7 million). This reduction was a result of savings from the reduced headcount following the reorganisation of the US and Developing Markets during 2020. This was a further reduction from 2019 when people costs totalled £104.6 million. People costs includes share-based payments of £8.9 million (2020: £5.6 million).

	2021 £m	2020 £m	Change %
People costs	**85.9**	94.7	(9%)
Less capitalised development spend ("CDS")	(8.2)	(9.4)	(13%)
People costs net of CDS	**77.7**	85.3	(9%)
Average headcount (incl. contractors)	929	1,002	(7%)
Year end headcount (incl. contractors)	979	863	13%

Marketing costs, which consist of online and direct mail, TV and brand campaigns and broker commissions, remained flat year-on-year with overall marketing spend just under 30% of operating income.

Depreciation, amortisation and impairment costs were £17.8 million (2020: £30.9 million). This includes impairments of the right-of-use property-related assets in the US and Developing Markets following the reorganisations. Once these are excluded, the charge was £13.9 million (2020: £17.2 million), the reduction being caused by the downsizing of the San Francisco office.

Loan repurchase charges relate to the Developing Markets, where Funding Circle entered into arrangements to buyback certain defaulted loans from certain financial institutions under a loan purchase commitment. In return, the business received a fee premium (reflected in other income).

Under IFRS 9 this commitment is accounted for under the expected credit loss model. Following the impact of Covid-19 in 2020, the loan repurchase charge in the prior year was £6.2 million reflecting the increased likelihood that there would be further defaulted loans to buy back. No further charge was required in 2021.

Other costs, which include cost of sales, data and technology costs and property costs, reduced from £40.8 million to £29.0 million, largely due to additional cost of sales and investor incentives that were required in 2020 in the early stages of PPP but were not required in 2021.

Balance sheet and investments

Following the strong trading performance during the year, coupled with improvements in the economic outlook for SMEs compared to those expected at 31 December 2020, the net assets of the Group have increased from £217.6 million to £288.0 million.

With the monetisation of the warehouses in the UK and US during the year, the Group now holds £224.0 million of cash, of which £24.6 million is restricted in use, principally as it is held within the securitisation SPVs. Additionally the Group has £70 million of net equity in the remaining investment vehicles. The following table sets out the split of the Group's net equity:

	Operating business £m	Investment in trusts and co-investments £m	Securitisation SPVs £m	PPP loans £m	Other investments £m	**31 December 2021 Total £m**	31 December 2020 Total £m
Investment in SME loans	5.8	39.1	148.1	71.6	9.2	**273.8**	558.8
Cash	208.3	-	14.4	1.3	-	**224.0**	103.3
Other assets/(liabilities)	-	-	(0.8)	0.3	-	**(0.5)**	11.1
Borrowings/bonds	-	-	(140.3)	(73.2)	-	**(213.5)**	(489.8)
Cash and investments	**214.1**	**39.1**	**21.4**	**-**	**9.2**	**283.8**	183.4
Other assets	67.9	-	-	-	-	**67.9**	109.0
Other liabilities	(63.7)	-	-	-	-	**(63.7)**	(74.8)
Equity	**218.3**	**39.1**	**21.4**	**-**	**9.2**	**288.0**	217.6

Our investment in the securitisation SPVs is split between two types:

i) The vertical tranches where we are required by regulation to retain a 5% equal participation in all classes of bonds issued. These have continued to pay down and are now valued at £6 million (2020: £12 million).

ii) The horizontal tranches - once loans are securitised, we held the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn the greatest returns, but they also absorb losses first. As the loans are valued at fair value using discounted cash flow forecasts, improved economic assumptions have increased the value of the horizontals and they are now valued at £16 million (2020: £4 million).

As part of our participation in the CBILS and RLS programmes we are required to co-invest c.1% alongside institutional investors. As the underlying SME loans are 80% guaranteed our exposure is limited. The growth in these investments has been driven by the strong originations during the year.

Cash flow

The Group had strong cash generation during 2021 with the cash position at 31 December 2021 at £224.0 million (2020: £103.3 million), with unrestricted cash of £199.4 million (2020: £59.1 million). This was driven by strong operational performance and cash generation from the investment vehicles, as well as monetisation of both the UK and US warehouses.

Free cash flow which represents the net cash flows from operating activities less the cost of purchasing intangible assets, property, plant and equipment, lease payments and interest received. It excludes the warehouse and securitisation financing and funding cash flows.

	2021 £m	2020 £m
Adjusted EBITDA	**91.8**	(63.8)
Fair value adjustments	(28.6)	118.3
Purchase of tangible and intangible assets	(9.4)	(10.3)
Net payment of lease liabilities	(7.9)	(7.8)
Working capital/other	36.9	(21.0)
Fee cash flow	**82.8**	15.4
Net investment in associates	3.9	2.3
Net investment in trusts and co-investments	(18.8)	(20.9)
Net investment in warehouses	63.8	(234.0)
Net investment in securitisations	(10.4)	176.1
Other	(1.5)	0.2
Effect of foreign exchange	0.9	(0.3)
Movement in the year	**120.7**	(61.2)
Cash and cash equivalents at the beginning of the year	103.3	164.5
Cash and cash equivalents at the end of the year	**224.0**	103.3

Free cash flow has principally improved due to cash flows from operating and investment income with costs down year-on-year, together with the working capital benefit of receiving net £27 million of fees due at 31 December 2020 which were subsequently received in February 2021.

In addition to the paydown of investments in both the warehouses and securitisation vehicles and the subsequent sale of the loans in the UK and US warehouses, the Group's investment in associates has also reduced as capital has been paid back to investors, including Funding Circle. As with the previous year, the Group continued to co-invest in the CBILS loans and subsequently the RLS loans at c.1%.

Statement of Director's responsibilities

The Funding Circle Report and Accounts for year end 31 December 2021 contains a responsibility statement in the following form:

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Report of the Directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the profit of the Group; and

- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and

- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and Company's auditors are aware of that information.

By order of the Board

Lisa Jacobs, Chief Executive Officer

Oliver White, Chief Financial Officer

10 March 2022

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Note	**31 December 2021 Before exceptional items £m**	**Exceptional items[1] £m**	**31 December 2021 £m**	31 December 2020 Before exceptional items £m	Exceptional items[1] £m	31 December 2020 £m
Transaction fees		**115.0**	–	**115.0**	122.5	–	122.5
Servicing fees		**47.0**	–	**47.0**	30.2	–	30.2
Other income		**3.5**	–	**3.5**	3.0	–	3.0
Fee income		**165.5**	–	**165.5**	155.7	–	155.7
Investment income		**53.7**	–	**53.7**	89.0	–	89.0
Investment expense		**(12.3)**	–	**(12.3)**	(22.7)	–	(22.7)
Total income		**206.9**	–	**206.9**	222.0	–	222.0
Fair value gains/(losses)		**28.6**	–	**28.6**	(118.3)	–	(118.3)
Net income	2	**235.5**	–	**235.5**	103.7	–	103.7
People costs	3, 5	**(77.7)**	–	**(77.7)**	(81.3)	(4.0)	(85.3)
Marketing costs	3	**(46.9)**	–	**(46.9)**	(46.8)	–	(46.8)
Depreciation, amortisation and impairment	3	**(13.9)**	**(3.9)**	**(17.8)**	(17.2)	(13.7)	(30.9)
Loan repurchase credit/(charge)	3	**0.1**	–	**0.1**	(6.2)	–	(6.2)
Other costs	3	**(29.0)**	–	**(29.0)**	(39.8)	(1.0)	(40.8)
Operating expenses	3	**(167.4)**	**(3.9)**	**(171.3)**	(191.3)	(18.7)	(210.0)
Operating profit/(loss)		**68.1**	**(3.9)**	**64.2**	(87.6)	(18.7)	(106.3)
Finance income		**0.1**	–	**0.1**	0.4	–	0.4
Finance costs		**(1.1)**	–	**(1.1)**	(1.4)	–	(1.4)
Share of net profit/(loss) of associates		**0.9**	–	**0.9**	(0.8)	–	(0.8)
Profit/(loss) before taxation		**68.0**	**(3.9)**	**64.1**	(89.4)	(18.7)	(108.1)
Income tax		**(2.9)**	–	**(2.9)**	(0.2)	–	(0.2)
Profit/(loss) for the year		**65.1**	**(3.9)**	**61.2**	(89.6)	(18.7)	(108.3)
Other comprehensive income							
Items that may be reclassified subsequently to profit and loss:							
Exchange differences on translation of foreign operations		**1.4**	–	**1.4**	1.7	–	1.7
Total comprehensive profit/(loss) for the year		**66.5**	**(3.9)**	**62.6**	(87.9)	(18.7)	(106.6)
Total comprehensive profit/(loss) attributable to:							
Owners of the Parent		**66.5**	**(3.9)**	**62.6**	(87.9)	(18.7)	(106.6)
Earnings/(loss) per share							
Basic earnings/(loss) per share	6	**18.5p**		**17.4p**	(25.8)p		(31.2)p
Diluted earnings/(loss) per share	6	**17.1p**		**16.0p**	(25.8)p		(31.2)p

1. Exceptional items are detailed within note 4.

All amounts relate to continuing activities.

Consolidated balance sheet

as at 31 December 2021

	Note	**31 December 2021 £m**	31 December 2020 (restated)[1] £m
Non-current assets			
Intangible assets	7	**24.9**	24.4
Property, plant and equipment	8	**14.1**	28.7
Investment in associates		**7.6**	11.0
Investment in trusts and co-investments	12	**39.1**	21.2
Investment in SME loans (other)	12	**74.2**	25.0
Trade and other receivables	9	**4.1**	-
		164.0	110.3
Current assets			
Investment in SME loans (warehouse)	12	**3.2**	221.8
Investment in SME loans (securitised)	12	**148.1**	279.8
Investment in SME loans (other)	12	**1.6**	-
Trade and other receivables	9	**25.0**	67.0
Cash and cash equivalents	13	**224.0**	103.3
		401.9	671.9
Total assets		**565.9**	782.2
Current liabilities			
Trade and other payables	10	**36.4**	34.1
Bank borrowings	12	-	171.2
Bonds	12	**140.3**	294.3
Short-term provisions and other liabilities	11	**3.4**	8.7
Lease liabilities	8	**6.9**	7.3
		187.0	515.6
Non-current liabilities			
Long-term provisions and other liabilities	11	**0.7**	1.2
Bank borrowings	12	**73.2**	24.3
Lease liabilities	8	**17.0**	23.5
Total liabilities		**277.9**	564.6
Equity			
Share capital		**0.4**	0.3
Share premium account		**293.0**	292.6
Foreign exchange reserve		**11.1**	9.7
Share options reserve		**19.1**	13.6
Accumulated losses		**(35.6)**	(98.6)
Total equity		**288.0**	217.6
Total equity and liabilities		**565.9**	782.2

[1]See note 1.

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Retained earnings/ (accumulated losses) £m	Total equity £m
Balance at 1 January 2020		0.3	292.3	8.0	11.9	6.5	319.0
Loss for the year		–	–	–	–	(108.3)	(108.3)
Other comprehensive income							
Exchange differences on translation of foreign operations		–	–	1.7	–	–	1.7
Total comprehensive income/(expense)		–	–	**1.7**	–	**(108.3)**	**(106.6)**
Transactions with owners							
Transfer of share option costs		–	–	–	(3.2)	3.2	–
Issue of share capital		–	0.3	–	–	–	0.3
Employee share schemes – value of employee services		–	–	–	4.9	–	4.9
Balance at 31 December 2020		**0.3**	**292.6**	**9.7**	**13.6**	**(98.6)**	**217.6**
Profit for the year		–	–	–	–	61.2	61.2
Other comprehensive income							
Exchange differences on translation of foreign operations		–	–	1.4	–	–	1.4
Total comprehensive income		**–**	**–**	**1.4**	**–**	**61.2**	**62.6**
Transactions with owners							
Transfer of share option costs		–	–	–	(1.8)	1.8	–
Issue of share capital		0.1	0.4	–	–	–	0.5
Employee share schemes – value of employee services		–	–	–	7.3	–	7.3
Balance at 31 December 2021		**0.4**	**293.0**	**11.1**	**19.1**	**(35.6)**	**288.0**

Consolidated statement of cash flows

for the year ended 31 December 2021

	Note	**31 December 2021 £m**	31 December 2020 £m
Net cash inflow from operating activities	13	**100.1**	33.1
Investing activities			
Purchase of intangible assets	7	**(8.6)**	(9.5)
Purchase of property, plant and equipment	8	**(0.8)**	(0.8)
Origination of SME loans (other)	12	**(213.5)**	(25.0)
Cash receipts from SME loans (other)	12	**163.7**	–
Purchase of SME loans (warehouse phase)	12	–	(286.9)
Cash receipts from SME loans (warehouse phase)	12	**58.6**	146.9
Cash receipts from SME loans (securitised)	12	**150.2**	211.7
Proceeds from sale of SME loans (warehouse phase)	12	**176.1**	–
Proceeds from sale of investment bonds	12	–	4.0
Investment in trusts and co-investments	12	**(22.1)**	(20.9)
Cash receipts from investments in trusts and co-investments	12	**3.3**	–
Redemption in associates		**3.9**	1.9
Dividends from associates		–	0.4
Interest received		**0.1**	0.4
Net cash inflow from investing activities		**310.9**	22.2
Financing activities			
Proceeds from bank borrowings	12	**208.2**	230.1
Repayment of bank borrowings	12	**(331.3)**	(299.1)
Proceeds from issuance of bonds	12	–	186.5
Payment of bond liabilities	12	**(160.6)**	(226.1)
Proceeds from the exercise of share options		**0.4**	0.2
Proceeds from subleases		**0.2**	–
Payment of lease liabilities	8	**(8.1)**	(7.8)
Net cash outflow from financing activities		**(291.2)**	(116.2)
Net increase/(decrease) in cash and cash equivalents		**119.8**	(60.9)
Cash and cash equivalents at the beginning of the year		**103.3**	164.5
Effect of foreign exchange rate changes		**0.9**	(0.3)
Cash and cash equivalents at the end of the year	13	**224.0**	103.3

The impact of exceptional items on the consolidated statement of cash flows is detailed in note 4.

Notes forming part of the consolidated financial statements

for the year ended 31 December 2021

1. Basis of preparation

The results for the year ended 31 December 2021 have been extracted from the audited financial statements of Funding Circle Holdings plc. The Group presents its annual financial statements in conformity with United Kingdom laws and regulations.

On 31 December 2020, International Financial Reporting Standards ("IFRS") as adopted by the European Union at that date were brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. The financial statements have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. In the previous year the accounts were prepared in accordance with IFRS pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRS in conformity with the requirements of the Companies Act 2006, including International Accounting Standards ("IAS") and interpretations issued by the International Financial Reporting Standard Interpretations Committee ("IFRS-IC"). The financial statements have been prepared on a going concern basis.

This change in basis of preparation is required by UK company law for the purposes of financial reporting as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy but rather a change in framework which is required to ground the use of IFRS in company law. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The financial statements have been prepared on the historical cost basis except for certain financial instruments that are carried at fair value through profit and loss ("FVTPL").

The financial information in this statement does not constitute statutory accounts within the meaning of s434 of the Companies Act 2006. The statutory accounts for the year ended 31 December 2021, on which the auditors have given an unqualified audit report, have not yet been filed with the Registrar of Companies.

The preparation of financial statements requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 15.

Except as described below in Note 14, the principal accounting policies applied in the preparation of the consolidated financial statements are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those financial statements.

Representation of comparative information

Investment in SME loans (other) of £24.3 million and related bank borrowings of £24.3 million have been reclassified in the comparative period from current to non-current to reflect the expected life of Paycheck Protection Program ("PPP") loan assets and the contractual life of the Paycheck Protection Program Liquidity Facility ("PPPLF") borrowings. The reclassification has no impact on the profit and loss or net assets of the Group. There was no impact on periods prior to the comparative period.

Going concern

The Group's business activities together with the factors likely to affect its future development and position are set out in the Strategic Report.

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

The Group made a total comprehensive profit of £62.6 million during the year ended 31 December 2021 (2020: loss of £106.6 million). As at 31 December 2021, the Group had net assets of £288.0 million (2020: £217.6 million). This includes £224.0 million of cash and cash equivalents (2020: £103.3 million) of which £24.6 million

(2020: £44.2 million) is held within the securitisation vehicles or for other specific purposes and is restricted in its use. Additionally, within the net assets, the Group holds £69.7 million (2020: £118.3 million) of invested capital some of which is capable of being monetised if liquidity needs arise.

The Group has prepared detailed cash flow forecasts for the next 15 months and has updated the going concern assessment to factor in the potential ongoing impact of Covid-19, inflation and related economic stress.
The base case scenario assumes:

- the new government-guaranteed Recovery Loan Scheme ("RLS") in the UK is not extended beyond June 2022;
- there remains macroeconomic stress in H1 2022 from inflation, supply chain and ongoing Covid-19-related pressures with a peak in defaults, however volumes of core loans rise in H2 2022 and there is a general recovery;
- lending in the US steadily recovers; and
- costs and headcount remain relatively flat other than increased investment in technology and risk;

Management prepared a severe but plausible downside scenario in which:

- Further macroeconomic volatility occurs in H1 2022 following the tapering of government support along with increased inflation and interest rates reducing borrower demand leading to decreased originations;
- investment returns reduce owing to increased funding costs, widening discount rates and deterioration in loan performance;
- an operational event occurs requiring a cash outlay; and
- a downside loss scenario is applied to Funding Circle's on-balance sheet investment in SME loans resulting in higher initial fair value losses and lower cash flows to the subordinate tranches of investments it owns.

Management has reviewed financial covenants the Group must adhere to in relation to its servicing agreements. These are with institutional investors for which there are unrestricted cash, tangible net worth and debt to tangible net worth ratios. Management has also reviewed regulatory capital requirements. In the downside scenario the risk of covenant or capital requirement breach is considered remote.

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

2. Segmental information

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

The three reportable segments consist of the geographic segments: the United Kingdom, the United States and Developing Markets. The Developing Markets segment includes the Group's businesses in Germany and the Netherlands.

The GLT measures the performance of each segment by reference to a non-GAAP measure, adjusted EBITDA, which is defined as profit/loss before finance income and costs, taxation, depreciation and amortisation ("EBITDA"), and additionally excludes share-based payment charges and associated social security costs, foreign exchange and exceptional items (see note 4). Together with operating profit/loss, adjusted EBITDA is a key measure of Group performance as it allows better comparability of the underlying performance of the business.

Net income/(loss)

	31 December 2021				31 December 2020			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Total income	**159.4**	**44.8**	**2.7**	**206.9**	152.9	63.0	6.1	222.0
Fair value gains/(losses)	**10.5**	**18.1**	**—**	**28.6**	(43.8)	(74.5)	—	(118.3)
Net income/(loss)	**169.9**	**62.9**	**2.7**	**235.5**	109.1	(11.5)	6.1	103.7

Segment profit

	31 December 2021				31 December 2020			
	United Kingdom £m	**United States £m**	**Developing Markets £m**	**Total £m**	United Kingdom £m	United States £m	Developing Markets £m	Total £m
Adjusted EBITDA	**61.9**	**28.4**	**1.5**	**91.8**	6.5	(62.4)	(7.9)	(63.8)
Depreciation and amortisation	**(9.7)**	**(4.1)**	**(0.1)**	**(13.9)**	(9.4)	(6.5)	(1.3)	(17.2)
Share-based payments and social security costs	**(7.6)**	**(1.3)**	**–**	**(8.9)**	(5.0)	(1.2)	(0.4)	(6.6)
Foreign exchange losses	**(0.3)**	**(0.6)**	**–**	**(0.9)**	–	–	–	–
Exceptional items (note 4)	**–**	**(3.9)**	**–**	**(3.9)**	–	(13.5)	(5.2)	(18.7)
Operating profit/(loss)	**44.3**	**18.5**	**1.4**	**64.2**	(7.9)	(83.6)	(14.8)	(106.3)

Net income by type

In addition to the segmental reporting of performance under IFRS 8, the table below sets out net income by its type:

	31 December 2021 £m	31 December 2020 £m
Transaction fees	**115.0**	122.5
Servicing fees	**47.0**	30.2
Other income	**3.5**	3.0
Fee income	**165.5**	155.7
Investment income	**53.7**	89.0
Investment expense	**(12.3)**	(22.7)
Total income	**206.9**	222.0
Fair value gains/(losses)	**28.6**	(118.3)
Net income	**235.5**	103.7

3. Operating expenses

	31 December 2021			31 December 2020		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Depreciation	**5.9**	**–**	**5.9**	9.0	–	9.0
Amortisation	**8.0**	**–**	**8.0**	8.2	–	8.2
Rental income and other recharges	**(0.9)**	**–**	**(0.9)**	(1.1)	–	(1.1)
Operating lease rentals: – Land and buildings	**0.1**	**–**	**0.1**	0.1	–	0.1
Employment costs (including contractors)	**77.7**	**–**	**77.7**	81.3	4.0	85.3
Marketing costs (excluding employment costs)	**46.9**	**–**	**46.9**	46.8	–	46.8
Data and technology	**9.0**	**–**	**9.0**	10.9	–	10.9
Loan repurchase (credit)/charge	**(0.1)**	**–**	**(0.1)**	6.2	–	6.2
Impairment of goodwill	**–**	**–**	**–**	–	12.0	12.0
Impairment of intangible and tangible assets	**–**	**3.9**	**3.9**	–	1.7	1.7
Other expenses[1]	**20.8**	**–**	**20.8**	29.9	1.0	30.9
Total operating expenses	**167.4**	**3.9**	**171.3**	191.3	18.7	210.0

1. Includes £1.3 million (2020: £0.3 million) in relation to expected credit loss impairment of loans held at amortised cost.

4. Exceptional items

	31 December 2021 £m	31 December 2020 £m
Restructuring costs	–	6.0
Share-based payment credit relating to restructuring	–	(1.0)
Impairment of goodwill	–	12.0
Impairment of non-financial assets (notes 7 and 8)	**3.9**	1.7
Total	**3.9**	18.7

Exceptional items are the items of income or expense that the Group considers are material, one-off in nature and of such significance that they merit separate presentation in order to aid the reader's understanding of the Group's financial performance.

During the year to 31 December 2021 certain floors of the San Francisco office were sublet to third parties for the remainder of the term of the head lease for an amount lower than the head lease rental. As a result the sublease was determined to be a finance lease which resulted in the right-of-use asset being derecognised and a net investment in sublease recognised on the balance sheet. The difference between the carrying value of the right-of-use asset and the net investment in the sublease was £3.3 million and has been recorded in the statement of comprehensive income as an impairment under exceptional items. Additionally it was determined that the fixed assets associated with the office were impaired in full as they were no longer used by the Group resulting in impairment of £0.6 million. There was no cash movement in relation to the impairment.

In the previous year ended 31 December 2020, the Group restructured the German and Dutch (Developing Markets) businesses to focus on referring loans it originates to local lenders. This restructuring resulted in one-off costs in the comparative year totalling £4.6 million comprising redundancy costs of £4.0 million, a related share-based payment credit of £(0.4) million and other costs of £1.0 million. An additional impairment on right-of-use assets was incurred of £0.6 million. Cash payments associated with these items totalled £0.8 million in the year ended 31 December 2021 (2020: £3.8 million). See note 11 for movement in associated provisions and note 13 for cash flow.

In the previous year, the Group reorganised the US business, centralising the US technology team in the UK and moving sales and marketing to Denver, resulting in a net reduction of c.85 roles. This restructuring resulted in one-off costs in the comparative year totalling £0.4 million, comprising redundancy costs of £1.0 million and related share-based payment credits of £(0.6) million. An additional impairment on the right-of-use assets was recognised of £1.1 million. Cash payments associated with these items totalled £nil in the year ended 31 December 2021 (2020: £1.1 million). See note 11 for movement in associated provisions and note 13 for cash flow.

In the previous year, following a change in the Group's income and cost forecasts, an event indicating the possibility of impairment was identified and the Group undertook a goodwill impairment review as a result of which it was identified that goodwill in relation to the Funding Circle USA business was carried at a value higher than the CGU's recoverable amount driven by a reduction in the future discounted cash flows of the CGU. As a result, an impairment was recognised of £12.0 million in the year ended 31 December 2020. There was no cash movement in relation to the impairment.

5. Employees

The average monthly number of employees (including Directors) during the year was:

	2021 Number	2020 Number
UK	**634**	601
US	**155**	240
Developing Markets	**15**	70
	804	911

In addition to the employees above, the average monthly number of contractors during the year was 125 (2020: 91).

Employment costs (including Directors' emoluments) during the year were:

	31 December 2021			31 December 2020		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Wages and salaries	**61.4**	–	**61.4**	70.8	4.0	74.8
Social security costs	**6.2**	–	**6.2**	6.9	1.0	7.9
Pension costs	**1.8**	–	**1.8**	1.2	–	1.2
Share-based payments	**8.9**	–	**8.9**	6.6	(1.0)	5.6
	78.3	–	**78.3**	85.5	4.0	89.5
Contractor costs	**7.6**	–	**7.6**	5.2	–	5.2
Less: capitalised development costs	**(8.2)**	–	**(8.2)**	(9.4)	–	(9.4)
Employment costs net of capitalised development costs	**77.7**	–	**77.7**	81.3	4.0	85.3

6. Earnings/(loss) per share

Basic earnings/(loss) per share amounts are calculated by dividing the profit/(loss) for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive potential ordinary shares include those share options granted to employees under the Group's share-based compensation schemes which do not have an exercise price or where the exercise price is less than the average market price of the Company's ordinary shares during the year.

The following table reflects the income and share data used in the basic and diluted loss per share computations:

	31 December 2021	31 December 2020
Profit/(loss) for the year (£m)	**61.2**	(108.3)
Basic weighted average number of ordinary shares in issue (million)	**351.5**	347.0
Basic earnings/(loss) per share	**17.4p**	(31.2)p
Profit/(loss) for the year before exceptional items (£m)	**65.1**	(89.6)
Basic weighted average number of ordinary shares in issue (million)	**351.5**	347.0
Basic earnings/(loss) per share before exceptional items	**18.5p**	(25.8)p

Profit/(loss) for the year (£m)	**61.2**	(108.3)
Diluted weighted average number of ordinary shares in issue (million)	**381.7**	347.0
Diluted earnings/(loss) per share	**16.0p**	(31.2)p
Profit/(loss) for the year before exceptional items (£m)	**65.1**	(89.6)
Diluted weighted average number of ordinary shares in issue (million)	**381.7**	347.0
Diluted earnings/(loss) per share before exceptional items	**17.1p**	(25.8)p

7. Intangible assets

	Capitalised development costs £m	Computer software £m	Other intangibles £m	Total £m
Cost				
At 1 January 2020	47.3	1.0	1.1	49.4
Exchange differences	(0.5)	–	–	(0.5)
Additions	9.4	0.1	–	9.5
Disposals	(10.7)	(0.3)	–	(11.0)
At 31 December 2020	45.5	0.8	1.1	47.4
At 1 January 2021	45.5	0.8	1.1	47.4
Exchange differences	(0.2)	0.1	0.1	–
Additions	8.5	0.1	–	8.6
Disposals	(4.8)	(0.1)	–	(4.9)
At 31 December 2021	**49.0**	**0.9**	**1.2**	**51.1**
Accumulated amortisation				
At 1 January 2020	24.0	0.8	1.0	25.8
Exchange differences	–	–	–	–
Charge for the year	8.0	0.2	–	8.2
Disposals	(10.7)	(0.3)	–	(11.0)
At 31 December 2020	21.3	0.7	1.0	23.0
At 1 January 2021	21.3	0.7	1.0	23.0
Exchange differences	(0.1)	–	0.2	0.1
Charge for the year	8.0	–	–	8.0
Disposals	(4.8)	(0.1)	–	(4.9)
At 31 December 2021	24.4	0.6	1.2	26.2
Carrying amount				
At 31 December 2021	**24.6**	**0.3**	**–**	**24.9**
At 31 December 2020	24.2	0.1	0.1	24.4

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

The Group has right-of-use assets which comprise property leases held by the Group. Information about leases for which the Group is a lessee is presented below.

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

	31 December 2021 £m	31 December 2020 £m
Property, plant and equipment (owned)	**2.7**	3.9
Right-of-use assets	**11.4**	24.8
	14.1	28.7

Reconciliation of amount recognised in the balance sheet

	Leasehold improvements £m	Computer equipment £m	Furniture and fixtures £m	Right-of-use assets (property) £m	Total £m
Cost					
At 1 January 2020	5.8	4.8	3.0	49.4	63.0
Disposals	(0.1)	(1.6)	(0.2)	(2.2)	(4.1)
Additions	0.4	0.4	–	–	0.8
Exchange differences	–	–	–	(0.4)	(0.4)
At 31 December 2020	6.1	3.6	2.8	46.8	59.3
At 1 January 2021	6.1	3.6	2.8	46.8	59.3
Disposals	(1.4)	(1.8)	(1.0)	–	(4.2)
Additions	–	0.7	0.1	–	0.8
Exchange differences	–	0.2	–	(0.4)	(0.2)
Derecognition of right-of-use assets	–	–	–	(15.4)	(15.4)
At 31 December 2021	**4.7**	**2.7**	**1.9**	**31.0**	**40.3**
Accumulated depreciation					
At 1 January 2020	3.0	4.0	1.5	15.5	24.0
Disposals	(0.1)	(1.6)	(0.2)	(2.2)	(4.1)
Charge for the year	0.8	0.8	0.4	7.0	9.0
Impairment (exceptional)	–	–	–	1.7	1.7
Exchange differences	–	–	–	–	–
At 31 December 2020	3.7	3.2	1.7	22.0	30.6
At 1 January 2021	3.7	3.2	1.7	22.0	30.6
Disposals	(1.4)	(1.8)	(1.0)	–	(4.2)
Charge for the year	0.8	0.6	0.3	4.2	5.9
Impairment (exceptional)	0.2	–	0.4	3.3	3.9
Exchange differences	(0.1)	(0.1)	0.1	–	(0.1)
Derecognition of right-of-use assets	–	–	–	(9.9)	(9.9)
At 31 December 2021	**3.2**	**1.9**	**1.5**	**19.6**	**26.2**
Carrying amount					
At 31 December 2021	**1.5**	**0.8**	**0.4**	**11.4**	**14.1**
At 31 December 2020	2.4	0.4	1.1	24.8	28.7

During the year, right-of-use assets related to the US San Francisco office were sublet in a finance sublease. As a result the right-of-use asset was derecognised and a net investment in sublease was recognised within other receivables. During the year the right-of-use asset related to the Netherlands business was exited along with the corresponding head lease liability. The carrying values of the right-of-use asset and lease liability at the point of derecognition were £0.4 million.

During the previous year ended 31 December 2020, right-of-use assets were identified as part of the FCCE and FCUSA restructures, which were considered to be individual CGUs for which the recoverable amount was considered to be the future potential sublet value. The estimated discounted cash flows from sublet income were compared to the carrying value of the asset and an impairment of £1.7 million was recognised. See note 4 for related exceptional items.

Lease liabilities

Amounts recognised on the balance sheet were as follows:

	31 December 2021 £m	31 December 2020 £m
Current	**6.9**	7.3
Non-current	**17.0**	23.5
Total	**23.9**	30.8

Amounts recognised in the statement of comprehensive income were as follows:

	31 December 2021 £m	31 December 2020 £m
Depreciation charge of right-of-use assets (property)	**4.2**	7.0
Interest expense (included in finance costs)	**1.1**	1.4
Expense relating to short-term leases and leases of low-value assets	**0.1**	0.1

The total cash outflow for leases (excluding short-term and low-value leases) in 2021 was £8.1 million (2020: £7.8 million).

As at 31 December 2021 the potential future undiscounted cash outflows that have not been included in the lease liability due to lack of reasonable certainty the lease extension options might be exercised amounted to £nil (2020: £nil).

9. Trade and other receivables

	31 December 2021 £m	31 December 2020 £m
Other receivables	**4.1**	–
Non-current trade and other receivables	**4.1**	–
Trade receivables	**1.8**	1.6
Other receivables[1]	**10.0**	15.5
Prepayments	**4.8**	3.6
Accrued income[2]	**6.2**	43.7
Rent and other deposits	**2.2**	2.6
Current trade and other receivables	**25.0**	67.0
	29.1	67.0

1. Includes £3.6 million (2020: £7.5 million) in relation to cash and liquidity reserves held in the UK securitisation vehicle which will unwind to make payments to bond holders in the future.
2. Includes £nil million (2020: £36.2 million) in relation to transaction fees receivable on CBILS originations. Accrued income outstanding at the start of the year was subsequently collected.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables described earlier. No trade receivables were overdue or impaired.

Included in rent and other deposits are £1.6 million of rental deposits (2020: £1.9 million) in respect of the Group's property leases which expire over the next five years.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

10. Trade and other payables

	31 December 2021 £m	31 December 2020 £m
Trade payables	**3.7**	2.1
Other taxes and social security costs	**4.9**	3.7
Other creditors	**11.4**	5.6
Accruals and deferred income	**16.4**	22.7
	36.4	34.1

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

11. Provisions and other liabilities

	Dilapidation £m	Loan repurchase £m	Restructuring[1] £m	Other £m	Total £m
At 1 January 2020	0.9	2.9	—	0.2	4.0
Exchange differences	—	0.2	—	(0.1)	0.1
Additional provision/liability	—	6.2	6.0	3.2	15.4
Amount utilised	—	(4.1)	(4.9)	(0.6)	(9.6)
At 31 December 2020	0.9	5.2	1.1	2.7	9.9
Exchange differences	-	(0.3)	(0.1)	0.2	(0.2)
Additional provision/liability	-	-	-	1.1	1.1
Amount utilised	-	(2.6)	(0.8)	(0.2)	(3.6)
Amount reversed	(0.3)	(0.1)	-	(2.7)	(3.1)
At 31 December 2021	**0.6**	**2.2**	**0.2**	**1.1**	**4.1**

1. Restructuring provision is in relation to reorganisation of the US, German and Dutch businesses; see note 4.

	31 December 2021 £m	31 December 2020 £m
Current provisions and other liabilities	**3.4**	8.7
Non-current	**0.7**	1.2
	4.1	9.9

The dilapidation provision represents an estimated cost for dismantling the customisation of offices and restoring the leasehold premises to its original state at the end of the tenancy period. The provision is expected to be utilised by 2025.

Loan repurchase liability

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

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

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

The Group defines a default, classified within non-performing, as a loan investment with any outstanding amounts exceeding a 90-day due date, which reflects the point at which the loan is considered to be credit-impaired. Under the loan repurchase contracts, this was the point at which there is an obligation for the Group to make a payment under the contract or buy back the loan. However, while the buyback agreement is contractually defined as 90 days past due, due to the impact of Covid-19, a consent letter was signed with the institutional investors in April 2020 to accommodate loans on forbearance plans whereby loans on such plans will be repurchased at 180 days past due. However, the definition of default for the purposes of expected credit losses remains 90 days past due and the buyback may lag the default definition applied.

If the loan is bought back by the Group, at the point of buy back, the financial asset associated with the purchase meets the definition of purchased or originated credit-impaired ("POCI"), this element of the reserve is therefore based on lifetime ECLs. After being bought back, POCI loans and associated impairment provisions are recognised within investment in SME loans (other) on the balance sheet.

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

	Performing: 12-month ECL £m	Underperforming: lifetime ECL £m	Non-performing: lifetime ECL £m	Total £m
At 1 January 2020	2.1	0.8	–	2.9
Exchange differences	0.1	0.1	–	0.2
Liability against loans transferred from performing	(0.3)	0.5	4.9	5.1
Amounts utilised	–	–	(4.1)	(4.1)
Loans repaid	(0.8)	–	–	(0.8)
Change in probability of default	1.1	0.1	0.7	1.9
At 31 December 2020	2.2	1.5	1.5	5.2
Exchange differences	(0.1)	(0.1)	(0.1)	(0.3)
Liability against loans transferred from performing	(0.2)	(0.5)	1.7	1.0
Amounts utilised	-	-	(2.6)	(2.6)
Loans repaid	(0.9)	(0.4)	(0.6)	(1.9)
Change in probability of default	0.4	(0.1)	0.5	0.8
At 31 December 2021	**1.4**	**0.4**	**0.4**	**2.2**

At 31 December 2020	Expected credit loss coverage %	Basis for recognition of loan repurchase liability	Gross assets of external parties subject to loan repurchase liability £m	Loan repurchase liability £m
Performing (due in 30 days or less)	10.8	12-month ECL	20.3	2.2
Underperforming (31–90 days overdue)	71.5	Lifetime ECL	2.1	1.5
Non-performing (90+ days overdue)	79.0	Lifetime ECL	1.9	1.5
		Total	24.3	5.2

At 31 December 2021	**Expected credit loss coverage %**	**Basis for recognition of loan repurchase liability**	**Gross assets of external parties subject to loan repurchase liability £m**	**Loan repurchase liability £m**
Performing (due in 30 days or less)	**15.3**	12-month ECL	**8.8**	**1.4**
Underperforming (31–90 days overdue)	**63.6**	Lifetime ECL	**0.6**	**0.4**
Non-performing (90+ days overdue)	**76.5**	Lifetime ECL	**0.6**	**0.4**
		Total	**10.0**	**2.2**

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

Macroeconomic scenarios are probability weighted within the model and include stress scenarios of: i) low losses, a high GDP, market confidence and political stability; ii) normal losses based on baseline economic conditions; iii) high losses with manufacturing and political instability; and iv) very high losses with an acceleration of defaults having peaked in H2 2021 as government support schemes eased and then de-stressing gradually afterwards.

The stress scenario used was a geography-weighted scenario reflecting higher losses on the Netherlands book than that of the German portion of the loan book, resulting in a blended stress of defaults having peaked in H2 2021 and de-stressing gradually afterwards.

The expected credit loss model includes actual defaults determined by monthly cohort, adjusted for forecasted lifetime cumulative default rates. It applies the latest default curve and lifetime default rates tailored to each cohort based on the expected lifetime default rate. When actual defaults trend higher than the curve, the forecast default curve is shifted upwards to align with actual performance. Estimated recoveries from defaults are discounted back to their present value using the effective interest rate.

Estimation is required in assessing individual loans and when applying statistical models for collective assessments, using historical trends from past performance as well as forward-looking information including macroeconomic forecasts in each market together with the impact on loan defaults. The most significant estimation is with default rates on performing loans. For the year ended 31 December 2021 the weighted average lifetime default rate is estimated at 19.6% (2020: 20.5%). If the weighted average default rate estimate were to change by +/-250 bps the liability would change by £1.4 million for the year (2020: £1.2 million from +/-240 bps). It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-250 bps and as a result it is possible that the liability in future could diverge from management's estimate.

The maximum exposure the Group might have to pay at the balance sheet date if 100% of eligible loans were required to be bought back would be £10.0 million (2020: £24.3 million). This would be dependent on the timing of any eligible loans defaulting. Repayments of eligible loans are no longer reinvested and therefore the final loan is due to expire in December 2024, along with the associated financial guarantees. At 31 December 2021, there is only one portfolio of loans.

12. Financial risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and ensure any limits are adhered to. The Group's activities are reviewed regularly and potential risks are considered.

Risk factors

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including foreign exchange risk, interest rate risk and other price risk).

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- investments;
- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- bank borrowings;
- bonds;
- lease liabilities; and
- loan repurchase liabilities.

Categorisation of financial assets and financial liabilities

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2021:

Assets	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
Investment in SME loans (other)	**–**	**75.8**	**–**	**75.8**
Investment in SME loans (warehouse)	**3.2**	**–**	**–**	**3.2**
Investment in SME loans (securitised)	**148.1**	**–**	**–**	**148.1**
Investment in trusts and co-investments	**39.1**	**–**	**–**	**39.1**
Trade and other receivables	**-**	**24.3**	**–**	**24.3**
Cash and cash equivalents	**112.1**	**111.9**	**–**	**224.0**
	302.5	**212.0**	**–**	**514.5**

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
Trade and other payables	**–**	**(15.2)**	**–**	**(15.2)**
Loan repurchase liability	**–**	**–**	**(2.2)**	**(2.2)**
Bank borrowings	**–**	**(73.2)**	**–**	**(73.2)**
Bonds	**(12.8)**	**(127.5)**	**–**	**(140.3)**
Lease liabilities	**–**	**(23.9)**	**–**	**(23.9)**
	(12.8)	**(239.8)**	**(2.2)**	**(254.8)**

The tables show the carrying amounts of financial assets and financial liabilities by category of financial instrument as at 31 December 2020:

Assets	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
Investment in SME loans (other)	–	25.0	–	25.0
Investment in SME loans (warehouse)	221.8	–	–	221.8
Investment in SME loans (securitised)	279.8	–	–	279.8
Investment in trusts and co-investments	21.2	–	–	21.2
Trade and other receivables	0.3	63.1	–	63.4
Cash and cash equivalents	24.8	78.5	–	103.3
	547.9	166.6	–	714.5

Liabilities	Fair value through profit and loss £m	Amortised cost £m	Other £m	Total £m
Trade and other payables	–	(7.7)	–	(7.7)
Loan repurchase liability	–	–	(5.2)	(5.2)
Bank borrowings	–	(195.5)	–	(195.5)
Bonds	(7.8)	(286.5)	–	(294.3)
Lease liabilities	–	(30.8)	–	(30.8)
	(7.8)	(520.5)	(5.2)	(533.5)

Financial instruments measured at amortised cost

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

Other financial instruments

Loan repurchase liabilities are measured at the amount of loss allowance determined under IFRS 9.

Financial instruments measured at fair value

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

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

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

The fair value of financial instruments that are not traded in an active market (for example, investments in SME loans) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. The investments categorised as level 2 relate to derivative financial instruments. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

	Fair value measurement using			
31 December 2021	**Quoted prices in active markets (level 1) £m**	**Significant observable inputs (level 2) £m**	**Significant unobservable inputs (level 3) £m**	**Total £m**
Financial assets				
Investment in SME loans (warehouse)	–	–	**3.2**	**3.2**
Investment in SME loans (securitised)	–	–	**148.1**	**148.1**
Investment in trusts and co-investments	–	–	**39.1**	**39.1**
Cash and cash equivalents	**112.1**	–	–	**112.1**
	112.1	–	**190.4**	**302.5**
Financial liabilities				
Bonds	–	–	**(12.8)**	**(12.8)**
	–	–	**(12.8)**	**(12.8)**

	Fair value measurement using			
31 December 2020	Quoted prices in active markets (level 1) £m	Significant observable inputs (level 2) £m	Significant unobservable inputs (level 3) £m	Total £m
Financial assets				
Trade and other receivables	–	0.1	0.2	0.3
Investment in SME loans (warehouse)	–	–	221.8	221.8
Investment in SME loans (securitised)	–	–	279.8	279.8
Investment in trusts and co-investments	–	–	21.2	21.2
Cash and cash equivalents	24.8	–	–	24.8
	24.8	0.1	523.0	547.9
Financial liabilities				
Bonds	–	–	(7.8)	(7.8)
	–	–	(7.8)	(7.8)

The fair value of investment in SME loans (warehouse) has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (warehouse) was £3.2 million at 31 December 2021 (2020: £221.8 million).

The fair value of investment in SME loans (securitised) represents loan assets in the securitisation vehicles and has been estimated by discounting future cash flows of the loans using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in SME loans (securitised) was £148.1 million at 31 December 2021 (2020: £279.8 million).

Bonds represent the unrated tranches of bond liabilities measured at fair value through profit and loss (the rated tranches of bonds are measured at amortised cost). The fair value has been estimated by discounting future cash flows in relation to the bonds using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the bonds was £12.8 million at 31 December 2021 (2020: £7.8 million).

Investment in trusts and co-investments represents the Group's investment in the trusts and other vehicles used to fund CBILS, RLS and certain core loans and is measured at fair value through profit and loss. The government-owned British Business Bank will guarantee up to 80% of the balance of CBILS loans in the event of default (and between 70% and 80% of RLS loans). The fair value has been estimated by discounting future cash flows in relation to the trusts and co-investments using discount rates that reflect the changes in market interest rates and observed market conditions at the reporting date. The estimated fair value and carrying amount of the investment in trusts and co-investments was £39.1 million at 31 December 2021 (2020: £21.2 million).

The most relevant significant unobservable input relates to the default rate estimate and discount rates applied to the fair value calculation, details of which are set out in note 15 for those with material estimation uncertainty. Fair value movements on investment in SME loans (warehouse), investment in SME loans (securitised), investments in trusts and bonds (unrated) are recognised through the profit and loss account in fair value gains/(losses).

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

	Investment in SME loans (warehouse) £m	Investment in SME loans (securitised) £m	Bonds (unrated) £m	Investment in trusts and co-investments £m	Trade and other receivables £m
At 1 January 2020	342.0	366.6	(20.0)	–	–
Additions	286.9	–	–	20.9	–
Securitisations	(214.2)	214.2	–	–	–
Transfers	(0.2)	–	–	–	0.2
Repayments	(146.9)	(211.7)	4.2	–	–
Disposal	–	–	(4.0)	–	–
Net (loss)/gain on the change in fair value of financial instruments at fair value through profit and loss	(43.4)	(87.2)	12.0	0.3	–
Foreign exchange loss	(2.4)	(2.1)	–	–	–
At 31 December 2020	221.8	279.8	(7.8)	21.2	0.2
Additions	–	–	–	22.1	–
Transfers	0.2	–	–	–	(0.2)
Repayments	(58.6)	(150.2)	–	(3.3)	–
Disposal	(176.1)	–	–	–	–
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit and loss	16.3	18.2	(5.0)	(0.9)	–
Foreign exchange (loss)/gain	(0.4)	0.3	–	–	–
At 31 December 2021	**3.2**	**148.1**	**(12.8)**	**39.1**	–

13. Notes to the consolidated statement of cash flows

Cash inflow/(outflow) from operating activities

	31 December 2021 £m	31 December 2020 £m
Profit/(loss) before taxation	**64.1**	(108.1)
Adjustments for		
Depreciation of property, plant and equipment	**5.9**	9.0
Amortisation of intangible assets	**8.0**	8.2
Impairment of goodwill (exceptional item)	**–**	12.0
Impairment of intangible and tangible assets (exceptional item)	**3.9**	1.7
Share-based payment restructuring credit (exceptional item)	**–**	(1.0)
Interest receivable	**(0.1)**	(0.4)
Interest payable	**1.1**	1.4
Non-cash employee benefits expense – share-based payments and associated social security costs	**8.5**	6.4
Fair value (gains)/losses	**(28.6)**	118.3
Movement in restructuring provision (exceptional item)	**(0.9)**	1.1
Movement in loan repurchase liability	**(3.0)**	2.3
Movement in other provisions	**(1.9)**	2.5
Share of (gains)/losses of associates	**(0.9)**	0.8
Other non-cash movements	**(0.7)**	1.2
Changes in working capital		
Movement in trade and other receivables	**46.4**	(35.3)
Movement in trade and other payables	**1.4**	13.0
Tax paid	**(3.1)**	–
Net cash inflow from operating activities	**100.1**	33.1

Cash and cash equivalents

	31 December 2021 £m	31 December 2020 £m
Cash and cash equivalents	**224.0**	103.3

The cash and cash equivalents balance is made up of cash, money market funds and bank deposits. The carrying amount of these assets is approximately equal to their fair value. Included within cash and cash equivalents above is cash of £1.0 million (2020: £1.0 million) which is restricted in use in the event of rental payment defaults and cash held in the securitisation SPVs of £14.4 million (2020: £38.9 million including warehouse SPVs for on-payment to lenders) which has been collected for on-payment to bond holders and is therefore restricted in its use. A further £9.2 million (2020: £4.3 million) of cash is held which is restricted in use to repaying investors in CBILS and RLS loans and paying CBILS and RLS-related costs to the UK Government.

At 31 December 2021, money market funds totalled £112.1 million (2020: £24.8 million).

14. Significant changes in the current reporting year
The financial position and performance of the Group were affected by the following events and transactions during the year ended 31 December 2021:

i) Sale of US and UK warehouse loan assets
In June 2021, Funding Circle sold SME loan assets from the warehouses in the US for £64.3 million as part of its strategy of monetising pre-pandemic investments. The bank borrowings associated with the loans were fully repaid using the proceeds.

In November 2021, Funding Circle sold SME loan assets from the warehouse in the UK for £111.8 million as part of its strategy of monetising pre-pandemic investments. The bank borrowings associated with the loans were fully repaid using the proceeds.

Certain SME loan assets in the warehouses were not sold as part of the transactions and remain on the balance sheet under investment in SME loans (warehouse).

ii) The UK Government's Recovery Loan Scheme ("RLS") and relaunch of core lending
During the year, Funding Circle became an accredited lender under RLS, the new government-guaranteed loan scheme successor to CBILS. Under the terms of the scheme Funding Circle is required to co-invest in loans originated through this scheme. The loans are beneficially owned by investors under trust structures in which Funding Circle retains a small stake. Additionally, core loans have been relaunched and are originated via the same trust structures in the UK.

In certain RLS and core loan co-investments in the UK and in the relaunch of core lending in the US, Funding Circle co-invests in notes of the leveraged structured vehicles on a pari passu basis along with majority investors. These notes are subordinate to senior notes issued to the senior borrowing facility provider of the vehicle. These vehicles are the sole beneficiaries of the trust structures under which loans are originated by drawing down on the subordinate and senior note facilities during an investment period. Once the investment period ends the vehicles distribute returns from the amortisation of the associated loans to the senior and subordinate note holders after paying any running expenses of the vehicle.

The Group does not consolidate the trusts or the structured vehicles or the loans held within the trusts or borrowings and other net assets of the vehicles, instead recognising its interest in the loans or vehicles as investment in trusts and co-investment assets on the balance sheet. This investment is held at FVTPL and interest is recognised within investment income in the consolidated statement of comprehensive income.

iii) The US Government's Paycheck Protection Program ("PPP") loan funding
During the year, the US Government's PPP scheme was extended until May 2021. Funding Circle continued to fund PPP loans via its lending platform, predominantly drawing down on the US Government's Federal PPP lending facility. As a result the Group holds £71.9 million (31 December 2020: £24.3 million) of PPP loans on balance sheet included within investment in SME loans (other) with a corresponding draw down on the SBA facility of £73.2 million (31 December 2020: £24.3 million) included within bank borrowings. The PPP loans on balance sheet and PPPLF liability may not directly offset due to timing of cash payments and forgiveness of the loans and repayment of the liability. These loans are recognised initially at fair value and are subsequently held at amortised cost as the business model under which the assets are held is to collect contractual cash flows. The loans are guaranteed and borrowers are incentivised to apply for forgiveness on the loans. Once a loan is forgiven by the SBA, the loan and related borrowing are extinguished.

Transaction fee income and broker commission expense associated with these loans are treated under IFRS 9 as an adjustment to the effective interest rate and are amortised over the expected life of the loans. While the contractual life of the PPP loans is up to five years, due to the design of the PPP loan programme, the loans are expected to be forgiven in a shorter period of time. The Group has determined that the estimated expected life of PPP loans is 16 months from origination. In arriving at this estimate, it has considered: the timeframe in which PPP borrowers are incentivised to apply for forgiveness prior to being required to commence repayments on the loans; recent steps the SBA has taken to streamline the forgiveness process; and trends in historical PPP loans. The impact of the estimate on the year ended 31 December 2021 is the extent to which fee income and broker cost are deferred. At 31 December 2021 £2.6 million fee income received and £0.2 million of broker commission expense incurred were deferred to future periods.

Changes in accounting policy and disclosures

The Group has adopted the following new and amended IFRS and interpretations from 1 January 2021 on a full retrospective basis.

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest Rate Benchmark Reform – Phase 2	Reliefs relating to interest rate benchmark reforms	1 January 2021
Amendments to IFRS 16 – Covid-19 Related Rent Concessions	Leases	1 June 2020

The amendments and interpretations listed above did not materially affect the current year and are not expected to materially affect future years.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting years and have not been early adopted by the Group as follows:

Standard/interpretation	Content	Applicable for financial years beginning on/after
Amendments to IFRS 3 – Reference to the Conceptual Framework	Business combinations	1 January 2022
Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use	Property, plant and equipment	1 January 2022
Amendments to IAS 37 – Onerous Contracts – Costs of Fulfilling a Contract	Provisions – onerous contracts	1 January 2022
Amendments to IAS 1 – Classification of Liabilities as Current or Non-current	Presentation of financial statements	1 January 2023
Amendments to IAS 8 – Definition of Accounting Estimates	Accounting policies, changes in accounting estimates	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	Accounting policies	1 January 2023
Amendments to IAS 12 – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	Deferred tax	1 January 2023

These standards are not expected to have a material impact on the Group in the current or future reporting years or on foreseeable future transactions.

Summary of new and amended accounting policies

There were no significant new accounting policies or amendments to existing accounting policies during the year.

15. Critical accounting judgements and key sources of estimation uncertainty

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

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

The significant judgements and estimates applied by the Group in the financial statements have been applied on a consistent basis with the financial statements for the year to 31 December 2020.

Critical judgements

Consolidation and deconsolidation of special purpose vehicles ("SPVs") and investment in trusts and co-investments (note 12)

As part of its asset-backed securitisation programmes, the Group has established warehouse and securitisation SPVs. Judgement is required in determining who is most exposed to the variability of returns and who has the ability to affect those returns and therefore who should consolidate these vehicles and subsequently deconsolidate them. Where the Group has a significant interest in the junior tranches of the securitisation vehicles or the subordinated debt in the warehouses, the Group is deemed to be exposed to the majority of the variability of the returns of those vehicles and controls them, and therefore consolidates them. Where this interest is reduced, the Group considers whether the vehicles should be deconsolidated.

The Group also holds a small beneficial ownership in trusts set up to fund CBILS, RLS and core loans with the remaining majority of the beneficial ownership held by institutional investors. The SME loans are originated by a Group subsidiary, Funding Circle Focal Point Lending Limited for CBILS and Funding Circle Eclipse Lending Limited for RLS and core loans, which retain legal title to the loans. These entities hold this legal title of trust on behalf of the majority investors who substantially retain the economic benefits the CBILS, RLS and core loans generate and therefore the trusts and the assets held within, including the SME loans, are not consolidated.

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

Loans originated through the platform

The Group originates SME loans through its platform which are funded primarily by banks, asset managers, other institutional investors, funds, national entities, retail investors or by usage of its own capital. Judgement is required to determine whether these loans should be recognised on the Group's balance sheet. Where the Group, its subsidiaries or SPVs which it consolidates have legal and beneficial ownership to the title of those SME loans, they are recognised on the Group's balance sheet. Where this is not the case, the loans are not recognised at the point of origination.

Key sources of estimation uncertainty

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

Fair value of financial instruments (note 12)

At 31 December 2021, the carrying value of the Group's financial instrument assets held at fair value was £302.5 million (31 December 2020: £547.9 million) and the carrying value of financial liabilities carried at fair value was £12.8 million (2020: £7.8 million).

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

Since 31 December 2020 the assumptions related to estimating fair value have been revised to reflect the observed actual performance of SME loans and a revision to the timing of the assumed defaults to occur later given the extension of government support measures to H2 2021. The combination of favourable observed performance and later defaults on an amortising pool of loans has led to a lower lifetime cumulative default expectation net of recoveries and an increase in the relative estimation of fair value of the loans. Additionally, market drivers of discount rates such as observed tightening in collateralised loan obligation spreads have resulted in the estimated cash flows being discounted at a lower rate which has led to an increase in the relative estimation of fair value of the loans and bonds.
Sensitivities to assumptions in the valuation of investment in trusts and co-investments, investment in SME loans (warehouse) and money market funds within cash and cash equivalents are not disclosed below as reasonably possible changes in the assumptions would not result in material changes in the carrying values.

Sensitivities to the default rates and discount rates are illustrated below.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (securitised)	148.1	Lifetime cumulative default rate as % of original	US: 19.6% and 19.8%[1] UK: 17.3%	A change in the lifetime cumulative default rate would have the following impact: US SPV1[1]: +50/-110 bps would decrease / increase fair value by £(0.8) million/£1.7 million respectively. US SPV2[1]: +80/-170 bps would decrease / increase fair value by £(1.6) million/£3.4 million respectively. UK: +40/-150 bps would decrease / increase fair value by £(0.9) million/ £3.4 million respectively.
Bonds (unrated)	(12.8)	Lifetime cumulative default rate of associated assets	17.3%	A change in the lifetime cumulative default rate by +40/-150 bps would decrease / increase fair value by £0.3 million and £(1.2)million respectively.

1. Two cumulative default rates are presented for the US representing the portfolios in each of the two respective securitisation vehicles. Separate sensitivities to default rates for the US securitisation vehicles represent the respective seasoning of the loans and the different reasonably possible range of outcomes.

The above sensitivities represent management's estimate of the reasonably possible range of outcomes and as a result the fair value of the assets and liabilities measured at fair value could materially diverge from management's estimate.

Description	Fair value £m	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
Investment in SME loans (securitised)	148.1	Discount rate	US: 8.0% UK: 8.2%	A change in the discount rates by +/-100 bps would decrease / increase fair value by £1.6 million/ £(1.6) million respectively.
Bonds (unrated)	(12.8)	Discount rate	13.3%	A change in the discount rate by +100/-100 bps would decrease / increase fair value by £0.2 million/£(0.2) million respectively.

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

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

Estimated recoverable amount of non-financial assets (notes 4, 7 and 8)
Non-financial assets (primarily goodwill, intangible assets and property, plant and equipment) are held within the Group within cash-generating units ("CGUs") which are expected to benefit from the assets. The Group has four CGUs, being Funding Circle USA ("FCUSA") and its subsidiaries, Funding Circle Ltd ("FCUK") and its subsidiaries, Funding Circle Global Partners Limited ("FCGPL") and the German and Dutch businesses (Funding Circle Continental Europe or "FCCE"). These assets are assessed annually for impairment in the case of goodwill or when indicators of impairment are identified for other assets.

The impairment test involves comparing the carrying value of the non-financial assets held for use to their recoverable amount for each CGU. The recoverable amount represents the higher of the CGU's fair value net of selling costs and its value in use, which were determined using discounted cash flow methodology.

During the prior year ended 31 December 2020, impairment was recognised in relation to the goodwill in FCUSA as the recoverable amount calculated was below the carrying amount and the goodwill was fully impaired by £12.0 million. As the goodwill was fully impaired in 2020, an annual impairment review was not necessary in 2021 and as there were no indicators of impairment identified, an impairment test was not undertaken for the year ended 31 December 2021 in relation to the other non-financial assets.