Funding Circle Holdings plc
Half Year 2022 Results
Embargoed until 7.00am, 8 September 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") announces results for the six months ended 30 June 2022.

Lisa Jacobs, CEO said:

"In the last six months, we have made early progress on all three of our strategic pillars to transform the business into a multi-product platform. We are attracting more businesses, saying yes to more businesses and entering new product categories to enable small businesses to not only borrow with Funding Circle, but pay and spend as well.

We are well prepared to manage the business through the challenging macro environment and are confident in our ability to help small businesses do the same. With our market-leading technology, which continues to deliver a superior customer experience, we remain well placed to deliver on our mission to help more small businesses get the funding they need to win."

Highlights:

- H1 2022 performance ahead of expectations, driven by investment AEBITDA.
- Prudent approach to the uncertain macro environment in H2 2022, with £15 million reduction to income outlook; now expected to be in the range of £140 million - £155 million.
- Net assets of £299 million, including unrestricted cash of £183 million to support business investment and growth as we execute our medium-term plan.
- Continued investor demand to fund loans; continued borrower demand.
- Investor returns through the platform remain robust and attractive, with upgrades to most loan cohorts.
- Market-leading technology continues to deliver a superior customer experience reflected in a Net Promoter Score of 80 in the UK and 83 in the US.
- Early execution against the three strategic pillars of our medium-term plan:
    - **Attract more businesses**: launched two Lending as a Service partnerships in the US.
    - **Say yes to more businesses**: expanded core product set in UK and US; strong origination growth, particularly in the US.
    - **#1 in new products**: tripled FlexiPay drawdowns from March to August.
- Well prepared to manage the business through the uncertain macro environment.

Performance Highlights

	H1 2022 £m	H2 2021 £m	H1 2021 £m
Loans under Management (LuM)	**4,071**	4,457	4,933
Originations	**803**	661	1,635
Operating income	**66.4**	71.0	94.5
Net investment income[1]	**10.9**	15.3	26.1
Total income	**77.3**	86.3	120.6
Fair value gains	**1.5**	20.5	8.1
Net income	**78.8**	106.8	128.7
AEBITDA[2]	**10.6**	38.5	53.3
Operating profit	**1.5**	28.7	35.5
Profit before taxation	**1.6**	28.7	35.4
Cash	**200.7**	224.0	168.1
Net Assets	**299.3**	288.0	254.1

[1] Net investment income comprises investment income less investment expense.

[2] Adjusted EBITDA ("AEBITDA") is an alternative performance measure and 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.

Financial Summary:

- Loans under management of £4.1 billion (31 December 2021: £4.5 billion) down 9% following expected early repayments of CBILS loans and PPP loan forgiveness.
- Originations of £803 million (H1 2021: £1.6 billion) down 51% year-on-year in line with expectations following the conclusion of the government-guaranteed loan schemes in H1 2021, but up on H2 2021 by 21%.
- Operating income of £66.4 million (H1 2021: £94.5 million) down by 30% against the high levels of income from the government-guaranteed loan schemes in H1 2021. H2 2021 included £14 million of deferred PPP revenue.
- Investment income of £10.9 million (H1 2021: £26.1 million) down by 58% as investments monetised in line with strategy and remaining loans amortise down.
- Fair value gain of £1.5 million (H1 2021: £8.1 million gain) following positive revaluations in both H1 and H2 2021, reflecting underlying credit performance.
- AEBITDA of £10.6 million (H1 2021: £53.3 million) and operating profit of £1.5 million (H1 2021: £35.5 million) in line with reduction in net income.
- Net assets of £299.3 million (31 December 2021: £288.0 million), including cash of £200.7 million (31 December 2021: £224.0 million) of which £183.4 million (31 December 2021: £199.4 million) was unrestricted[3].

Operating and Strategic Summary:

- **We have a proven platform model and we will continue to actively manage the business through the challenging macro environment:**
    - Investor returns through the platform remain resilient with improvements in most cohorts. Recent cohorts expected to deliver 5-7% returns. This reflects the quality of the loans Funding Circle originates.
    - We have refined our credit model to maintain a prudent approach to originations and adjusted borrower pricing to reflect the rising base rate environment.
    - We continue to see demand from investors to fund loans with an active forward-pipeline and anticipate adding new investors in H2 2022.

- **We have made early progress against our medium-term plan:**
    - In March, we announced our medium-term plan to transform Funding Circle into a multi-product platform, serving a direct and embedded audience.
    - We are focused on empowering small businesses to not only borrow but pay and spend as well.
    - Six months into this plan, we are delivering against our three strategic pillars:
        - **Attract more businesses:**
            - Launched two Lending as a Service ("LaaS") partnerships with Pitney Bowes and DreamSpring in the US
            - Continued to refine our embedded finance solution in the UK
        - **Say yes to more businesses:**
            - Expanded US core loan proposition to serve super-prime businesses
            - Expanded UK core loan proposition to serve select younger businesses
        - **#1 in new products:**
            - Tripled FlexiPay drawdowns from March to August during its pilot phase and opened up to new customer segments. Generated £17 million of originations in H1 2022
            - Beta launch for FlexiPay Card on track for Q4 2022 in the UK

- **Leading SME loans platform:**
    - **UK**: Funding Circle is the largest SME loan platform with over ten years of experience.
        - £3.6 billion of loans under management in H1 2022 down from £3.9 billion in H2 2021, reflecting the early repayment of CBILS loans.

[3] Unrestricted cash refers to total cash less cash that is restricted in use. The restricted cash is cash that is not available for general use by the company as it is held within investment vehicles.

- **US**: We have built powerful capabilities with increasing scale and customer base over the past eight years.
    - High origination growth since PPP closure in May 2021. £145 million originated in H1 2022 compared with £69 million in H2 2021.
- The superior experience we deliver to customers leads to high customer advocacy, reflected in a Net Promoter Score ("NPS") of 80 in the UK and 83 in the US.
- We also have a huge societal impact. In 2021, lending through Funding Circle's UK platform helped generate more than £7bn in GDP whilst creating and sustaining 100,000 jobs.

- **Our world-class technology continues to deliver a superior customer experience:**
    - At Funding Circle we are reinventing small business lending through technology, data and machine learning.
    - Our world-class tech platform delivers significant customer benefits and creates a deep moat around our business:
        - **Large data lake:** Our data lake has over 2 billion data points on 28 million SMEs across the UK and US enabling us to build accurate and predictive models.
        - **Better machine learning models:** In the UK, our 8th generation risk models significantly outperform traditional bureau scores, optimising access whilst delivering strong investor returns.
        - **Better customer experience:** We have built the capability for SMEs in the UK to receive an instant lending decision. Today more than 70% of applications receive an instant decision. A borrower can apply for a loan in six minutes, receive a decision in nine seconds and money in their account in 24 hours.
        - **Increased operating leverage:** Our Decision Engine platform generates personalised customer journeys, pricing and propositions which help to increase conversion.
        - **New products:** The strength of our platform enables us to offer new products and capabilities.
        - **Customer growth:** Our technology is revolutionising SME lending and delivering a superior customer experience for borrowers resulting in strong satisfaction scores and high repeat rates.

Outlook:

- The business is in a good position and we are well prepared to manage through the challenging macro environment.
- We are taking a prudent approach to the macro environment in the UK and the US in H2 2022, with income outlook now expected to be in the range of £140 million - £155 million.
- We reaffirm that the business will be AEBITDA positive for the Full Year. Medium-term guidance is unchanged.

	2022	
	Revised guidance	*Original guidance*
Group total income[4]	£140m - £155m	*£155m - £170m*
Group AEBITDA	Remain AEBITDA positive, although now skewed to H1, following strong performance of investment AEBITDA	

Medium-term guidance (2025) unchanged		
UK	**US**	**FlexiPay**
At least £220m	At least £70m	Too early to be precise
Margins at 30-35%	AEBITDA breakeven during 2024	AEBITDA profitable

[4] Revised guidance: Group operating income £130m-£140m and Group investment income £10m-£15m. *Original guidance: Group operating income £145m-£155m and Group investment income £10m-£15m.*

Analyst presentation:

Management will host an analyst and investor presentation and conference call at 9:30am UK time (BST), on Thursday 8 September 2022, including a Question and Answer session.

To watch and listen to the webcast, with the opportunity to submit written questions, please use this webcast link to register or gain instant access to the event.

For conference call access, with the opportunity to ask live questions, please dial-in:
From the UK dial: 0800 279 6877
From the US dial: +1 646-828-8073
From anywhere else dial: +44 330 165 4012
Access code: 9611633

An on-demand replay and transcript will also be available on the Funding Circle website following the presentation.

Enquiries:

Funding Circle Investor Relations
Morten Singleton (+44 7709 048699)
ir@fundingcircle.com

Funding Circle Media Relations
Abigail Whittaker (+44 7989 876136) / Nicole Gregory (+44 7715 997709)
press@fundingcircle.com

Headland Consultancy
Mike Smith / Stephen Malthouse (+44 20 3805 4822)

About Funding Circle:

Funding Circle (LSE: FCH) is a lending platform for small business borrowers. Established in the UK in 2010, and now the leading lending platform to SMEs, the Group also has a material and growing presence in the US. Globally, Funding Circle has provided £14.5bn in loans to c.130,000 businesses.

For small business borrowers, Funding Circle provides a leading-edge customer experience, delivered through its technology, machine learning, and data science, coupled with a human touch. Its solutions continue to help customers access the funding they need to succeed.

For lending investors, Funding Circle provides access to an alternative asset class in an underserved market, and delivers robust and attractive returns.

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 ten years, we have 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 130,000 small businesses to access more than £14.5 billion of funding. Through our investment in technology, we have acquired more than a decade of data on SMEs. This data enables us to conduct granular risk analysis, strengthening our risk models. This world-class system powers the Funding Circle flywheel which drives innovation, improvements, and a significant competitive advantage.

For borrowers, this means we provide a seamless and fast experience, resulting in strong customer satisfaction scores and high-repeat rates. For investors, this means we provide resilient and attractive returns. And it also helps us to grow alongside our customers, all part of a virtuous circle so that we can continue to meet the finance needs of hundreds of thousands of SMEs and grow our market share.

Overview of the six months ended June 2022

Our performance in H1 2022 was ahead of expectations, driven by investment AEBITDA. We continued to focus on our commercial loans, expanding to new customer segments, following either the closure or reducing scale of the various government-guaranteed loan schemes. We continued to invest in and grow our first short-term finance product FlexiPay, opened up to new customer segments and tripled FlexiPay drawdowns from March to August. We also continued to grow our marketplace (referral) offering, connecting borrowers with other lenders in the market, providing further products beyond what Funding Circle currently offers, such as larger loans, asset finance and invoice finance.

In the UK, we continued to offer our commercial loans alongside the Recovery Loan Scheme ("RLS"), the 80% government-guaranteed loan scheme introduced in April 2021, up until May 2022. We then transitioned to operate solely our commercial lending from June 2022 onwards and now also offer our core loans to select younger businesses. A new iteration of RLS launched in August 2022. We have applied for accreditation, but we expect that the majority of our lending will continue to be through a combination of our core, marketplace and new products. In the prior year, we offered CBILS loans until the processing of those loans finished in June 2021.

In the US, we continued to offer our commercial loan product during the six months to June 2022 and we have expanded this offering to serve super-prime businesses. In the prior year, we operated the Paycheck Protection Program ("PPP") through the Small Business Administration ("SBA") which closed in May 2021. Since the programme's closure, we continued to process forgiveness claims of PPP loans as they became forgiven by the US Government during H1 2022, as a result of the borrower meeting usage conditions.

Government-guaranteed loan schemes resulted in very high demand for loans from borrowers in H1 2021. As a result of the timings of these schemes operating and concluding, borrower appetite for loans was subdued during H2 2021 and into H1 2022. We have continued to grow originations in H1 2022 despite this subdued market demand.

Originations (half year ended)

	30 June 2022	31 December 2021	30 June 2021
	£m	£m	£m
United Kingdom	**641**	591	1,381
United States	**145**	69	247
Developing Markets	**-**	1	7
New Products (FlexiPay)	**17**	-	-
Total	**803**	661	1,635

Originations in H1 2022 totalled £803 million. This compared with £661 million in H2 2021, down from £1,635 million in H1 2021.

Loans under Management

	30 June 2022 £m	31 December 2021 £m	Change
United Kingdom	**3,632**	3,944	(8%)
United States	**371**	425	(13%)
Developing Markets	**60**	88	(32%)
New Products	**8**	-	-
Total	**4,071**	4,457	(9%)

Loans under management declined in the period by 9% to £4,071 million. This was principally driven by:

- Higher levels of early repayments from CBILS loans which was expected as there were no principal payments required in the first year and the government was paying the interest. As the first borrower payments became due, some borrowers repaid the loans in full.
- Reduction in PPP loans as they became forgiven by the US Government, provided certain borrower conditions on usage were satisfied. PPP loans totalled £125 million at 31 December 2021 reducing to £48 million by 30 June 2022. No servicing fees are earned on PPP loans.

Geographic highlights

Net income/(loss)	30 June 2022					30 June 2021				
	United Kingdom	**United States**	**Developing Markets**	**New Products**	**Total**	United Kingdom	United States	Developing Markets	New Products	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Total income	**61.9**	**14.2**	**0.8**	**0.4**	**77.3**	98.8	20.2	1.6	-	120.6
Fair value gains/(losses)	**(4.0)**	**5.5**	**-**	**-**	**1.5**	0.3	7.8	-	-	8.1
Net income	**57.9**	**19.7**	**0.8**	**0.4**	**78.8**	99.1	28.0	1.6	-	128.7

Segment profit	30 June 2022					30 June 2021				
	United Kingdom	**United States**	**Developing Markets**	**New Products**	**Total**	United Kingdom	United States	Developing Markets	New Products	Total
	£m	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m
Adjusted EBITDA	**7.6**	**1.9**	**1.8**	**(0.7)**	**10.6**	41.0	11.8	0.5	-	53.3
Depreciation and amortisation	**(5.3)**	**(1.6)**	**-**	**-**	**(6.9)**	(5.6)	(2.7)	-	-	(8.3)
Share-based payments and social security costs	**(1.9)**	**(0.4)**	**-**	**-**	**(2.3)**	(4.2)	(0.6)	-	-	(4.8)
Foreign exchange gains/(losses)	**0.1**	**-**	**-**	**-**	**0.1**	-	(0.8)	-	-	(0.8)
Exceptional items	**-**	**-**	**-**	**-**	**-**	-	(3.9)	-	-	(3.9)
Operating profit/(loss)	**0.5**	**(0.1)**	**1.8**	**(0.7)**	**1.5**	31.2	3.8	0.5	-	35.5
Operating AEBITDA[5]	***4.9***	***(7.8)***	***1.8***	***(0.7)***	***(1.8)***	*27.7*	*(9.1)*	*0.5*	*-*	*19.1*
Investment AEBITDA[5]	***2.7***	***9.7***	***-***	***-***	***12.4***	*13.3*	*20.9*	*-*	*-*	*34.2*

United Kingdom

There continued to be strong demand from investors during the period to fund both the RLS and commercial loans. We have signed ongoing forward funding flow agreements with a range of institutional investors totalling £1.7 billion.

We originated £641 million of loans in H1 2022 compared with £591 million in H2 2021 and £1,381 million in H1 2021. Originations in 2021 were at a record level due to the significant demand for government-guaranteed loans at the height of the pandemic.

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

The UK delivered total income of £61.9 million in H1 2022 compared with £98.8 million in H1 2021 and £60.6 million in H2 2021. Operating income in H1 2022 was £55.2 million (H1 2021: £85.8 million, H2 2021: £51.9 million). Net investment income was down to £6.7 million (H1 2021: £13.0 million, H2 2021: £8.7 million) as the investments in SME loans on balance sheet continued to amortise down and we took the opportunity to exit and monetise the UK warehouse in November 2021, crystallising £32 million of cash.

The UK generated operating AEBITDA of £4.9 million, lower than the levels seen in H1 2021 whilst CBILS was operating, but above the £2.0 million in H2 2021. Investment AEBITDA was £2.7 million (H1 2021: £13.3 million, H2 2021: £18.9 million). H1 2022 experienced a net fair value loss in the UK of £4.0 million driven predominantly by negative fair value movements in investments in certain trusts held via vehicles in which the Group holds a minority investment. Increases in base rates increased projected borrowing costs, and a revision to the macroeconomic loss assumptions with a gradual but longer lasting default stress negatively impacted the expected returns. In contrast, 2021 benefited from the improved economic outlook and the positive impact this had on the fair value of the SME loans held on balance sheet resulting in fair value gains.

Total AEBITDA was £7.6 million (H1 2021: £41.0 million, H2 2021: £20.9 million) with an AEBITDA margin of 13%. Operating profit was £0.5 million (H1 2021: £31.2 million, H2 2021: £13.1 million). The reduction in both total AEBITDA and operating profit on H2 2021 was driven by the reduced investment AEBITDA offset by some growth in operating AEBITDA.

United States

During the period, the US closed funding deals with four banks and credit unions. We anticipate adding further new investors during H2 2022.

The US has continued to grow originations since PPP ceased in May 2021. Originations were £145 million during H1 2022 compared with £69 million in H2 2021 and £247 million in H1 2021 when PPP was operating.

Total income for the US was £14.2 million (H1 2021: £20.2 million) comprising operating income of £10.0 million (H1 2021: £7.1 million) and net investment income of £4.2 million (H1 2021: £13.1 million).

In H1 2021, £16 million of transaction fees were earned on PPP originations. However, loans originated under the PPP liquidity facility are held on balance sheet until they have been forgiven by the SBA. Accordingly, under IFRS 9, this was spread over the expected life of those loans with c.£14 million of this being recognised in H2 2021 and c.£2 million in H1 2022. When the PPP deferral is reversed to show the underlying operating performance, operating income was £7.6 million in H1 2022, down from H1 2021 of £23.2 million, but higher than the £4.0 million in H2 2021.

Net investment income was £4.2 million compared to £13.1 million in H1 2021. Similar to the UK, the reduction in investment income reflects the amortising nature of the investment in SME loans held on balance sheet. In June 2021, the US sold c.£63 million of loans held in the warehouse to an asset manager, crystallising £38 million of net cash proceeds.

Operating AEBITDA for the period was negative £7.8 million (H1 2021: negative £9.1 million). When the PPP deferral is reversed to show underlying performance, operating AEBITDA was negative £10.1 million compared to £5.6 million in H1 2021 and negative £13.1 million in H2 2021. Investment AEBITDA was £9.7 million (H1 2021: £20.9 million) principally reflecting the amortising loan book and warehouse sold in June 2021. However, the SME loans held on balance sheet continue to deliver strong returns and cash inflows which drove the fair value gain.

Total AEBITDA was £1.9 million compared with AEBITDA of £11.8 million in H1 2021 and operating profit was negative £0.1 million (H1 2021: £3.8 million).

Funding Circle

Finance review

Overview

Group total income was £77.3 million (H1 2021: £120.6 million), down 36%. Net income for the half year was £78.8 million (H1 2021: £128.7 million). Net income is total income plus fair value movements on SME loans held for sale and investments in trusts. The fair value gain in H1 2022 reflected a strong performance from the consolidated SME loans with lower defaults and higher recoveries than expected, although it was partially offset by higher discount rates (affected by higher interest rates) as loans are valued on a discounted cash flow basis.

AEBITDA was £10.6 million (H1 2021: £53.3 million), which comprised negative £1.8 million operating AEBITDA (H1 2021: £19.1 million) and £12.4 million investment AEBITDA (H1 2021: £34.2 million).

The Group's operating profit was £1.5 million for the period (H1 2021: £35.5 million).

Profit and loss

	30 June 2022			30 June 2021		
	Before exceptional items £m	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Transaction fees	**40.7**	-	**40.7**	70.5	-	70.5
Servicing fees	**24.2**	-	**24.2**	21.9	-	21.9
Other fees	**0.9**	-	**0.9**	2.1	-	2.1
Interest income	**0.6**	-	**0.6**	-	-	-
Operating income	**66.4**	-	**66.4**	94.5	-	94.5
Investment income	**14.1**	-	**14.1**	33.5	-	33.5
Investment expense	**(3.2)**	-	**(3.2)**	(7.4)	-	(7.4)
Total income	**77.3**	-	**77.3**	120.6	-	120.6
Fair value gains	**1.5**	-	**1.5**	8.1	-	8.1
Net income	**78.8**	-	**78.8**	128.7	-	128.7
People costs	**(41.4)**	-	**(41.4)**	(39.4)	-	(39.4)
Marketing costs	**(17.3)**	**-**	**(17.3)**	(27.4)	-	(27.4)
Depreciation, amortisation and impairment	**(6.9)**	-	**(6.9)**	(8.3)	(3.9)	(12.2)
Loan repurchase charge	**0.4**	-	**0.4**	(0.1)	-	(0.1)
Other costs	**(12.1)**	-	**(12.1)**	(14.1)	-	(14.1)
Operating expenses	**(77.3)**	-	**(77.3)**	(89.3)	(3.9)	(93.2)
Operating profit/(loss)	**1.5**	-	**1.5**	39.4	(3.9)	35.5

Operating income includes transaction fees, servicing fees, interest income and other fees and was £66.4 million (H1 2021: £94.5 million).

- *Transaction fees*, representing fees earned on originations, decreased 42% from H1 2021 to £40.7 million. The overall decrease in transaction fees over H1 2021 was driven by lower trading volumes as the Group transitioned away from the government-guaranteed loan schemes in the UK and the US. In comparison, H1 2021 experienced strong trading performance as a result of CBILS.

  Average yields across the Group were 5.2% in H1 2022 compared with 4.4% in H1 2021. Yields on CBILS loans in the prior year were fixed at 4.75%.

  Whilst PPP loans were originated in H1 2021, as the PPP loans were held on balance sheet at amortised cost until forgiven, the transaction fees associated with them are required to be spread over the expected life of the loans. As a result, transaction fees for which cash had been received totalling £16 million were deferred from H1 2021 with £14 million recognised in H2 2021 and £2 million in H1 2022 respectively.

- *Servicing fees*, representing income for servicing loans under management, increased to £24.2 million from £21.9 million in H1 2021 following the heightened origination activity driven by CBILS.

  Overall servicing yield was 1.1% compared with 1.0% in H1 2021, with yields on CBILS, RLS and commercial loans at c.1.25%. There is no servicing fee earned on PPP loans.

- *Other fees* arose principally from a fee premium we received from certain institutional investors in the year in respect of buying back certain defaulted loans under a historic loan purchase commitment and from collections fees.

- *Interest income* represents interest earned on loans held at amortised cost predominantly from our FlexiPay lines of credit assets.

Net investment income represents the investment income, less investment expense, on loans within Funding Circle's investment vehicles and was £10.9 million (H1 2021: £26.1 million). H1 2021 benefitted from the net investment income on the US and UK warehouses which were sold in June 2021 and November 2021 respectively. Net investment income will continue to reduce as the loans continue to amortise down.

Net income, defined as total income after fair value adjustments, was £78.8 million (H1 2021: £128.7 million). This reflects the reduction in operating income from the higher levels in H1 2021 when CBILS was operating together with a reduction in net investment income following amortisation of the portfolios and the sale of the warehouses in 2021 to crystallise c. £70 million in cash.

The net fair value gain in H1 2022 was driven by strong performance on the securitisation vehicles particularly in the US, partly offset by investment in trusts in the UK, where investments held via vehicles were negatively impacted by the increased base rates increasing borrowing costs and revision to the timing and magnitude of forecast default stress. H1 2021 benefitted from an improved economic outlook which had a positive impact on the valuation of the SME loans held on balance sheet.

Operating expenses

Operating expenses reduced by 17% or £16 million from H1 2021. This was principally as a result of reduced marketing costs and in particular broker commissions which were higher in H1 2021 (aligned to the higher originations from government-guaranteed loan schemes).

People costs (including contractors) which represent the Group's largest ongoing operating cost increased during the period by 9% to £47.2 million, before the capitalisation of development spend. This was driven by increased investment in the technology teams and wage inflation. The share-based payment charge for the period, included in people costs, was £2.3 million (H1 2021: £4.8 million).

	30 June 2022 £m	30 June 2021 £m	Change %
People costs	**47.2**	43.4	9
Less capitalised development spend ("CDS")	**(5.8)**	(4.0)	45
People costs net of CDS	**41.4**	39.4	5
Average headcount (incl. contractors)	**1,004**	915	10
Period-end headcount (incl. contractors)	**1,029**	931	11

Marketing costs reduced in the period from £27.4 million in H1 2021 to £17.3 million principally driven by broker commissions which were higher in H1 2021 following the higher level of CBILS originations together with strong cost control of marketing to ensure the spend was optimised. Marketing spend overall was 26% of operating income (H1 2021: 29%).

Depreciation, amortisation and impairment costs of £6.9 million (H1 2021: £8.3 million) largely represent the amortisation of the cost of the Group's capitalised technology development and impairment of assets.

A charge of £3.9 million was recorded in H1 2021 to impair the right of use asset and office fixtures associated with the San Francisco office which was sublet.

Balance sheet and investments

The Group's net equity has grown from £288 million at 31 December 2021 to £299 million as at 30 June 2022.

The Group's balance sheet includes £214 million of net equity from the operating business, including £7.1 million of FlexiPay lines of credit. Funding Circle also holds certain SME loans on balance sheet either directly or through investment vehicles. The net equity in these totalled a further £85 million. The table below sets out the Group's net equity:

	Operating business			Investment business				30 June 2022	31 December 2021
	Trading business £m	New products £m	PPP Loans £m	Securitisation SPVs £m	Investment in trusts and co-investments £m	Investment in core loans £m	Other investments £m	Total £m	Total £m
SME loans	2.9	7.1	35.1	63.7	34.5	27.6	5.9	**176.8**	273.8
Cash and cash equivalents	193.1	-	0.7	6.9	-	-	-	**200.7**	224.0
Other assets/(liabilities)	-	-	(0.2)	1.8	-	-	-	**1.6**	(0.5)
Borrowings/bonds	-	-	(35.6)	(55.4)	-	-	-	**(91.0)**	(213.5)
Cash and net investments	**196.0**	**7.1**	**-**	**17.0**	**34.5**	**27.6**	**5.9**	**288.1**	283.8
Other assets	66.9	-	-	-	-	-	-	**66.9**	67.9
Other liabilities	(55.7)	-	-	-	-	-	-	**(55.7)**	(63.7)
Equity	**207.2**	**7.1**	**-**	**17.0**	**34.5**	**27.6**	**5.9**	**299.3**	288.0

The table below provides a further breakdown of Funding Circle's net equity invested in products and vehicles:

Investment in product/vehicles	30 June 2022 £m	31 December 2021 £m
1. Securitisation SPVs [1]		
Vertical	**3**	6
Horizontal	**14**	16
2. Trusts and co-investments[1]	**34**	39
3. Core loans	**28**	-
4. Other	**6**	7
Net investment equity	**85**	68
5. New products	**7**	2
Total net equity	**92**	70

[1] These vehicles are bankruptcy remote

1. Securitisation SPVs
   i. Vertical - Funding Circle is required by regulation to retain a 5% equal participation in all classes of bonds issued. This has continued to pay down.

   ii. Horizontal - once loans are securitised, we temporarily hold the residual horizontal tranches with the intention to sell once seasoned. These tranches have the potential to earn greatest returns, but they also absorb losses first. The timing of the pandemic meant that it was not feasible to dispose of all these horizontal tranches in 2020 but we still intend to do so if opportunities allow. As the loans are valued at fair value using discounted cash flow forecasts, improved performance has increased the value of the horizontals.

2. Trusts and co-investments
   As part of our participation in the CBILS and RLS programmes we were required to co-invest c.1% alongside institutional investors. As the underlying CBILS and RLS SME loans are 70-80% guaranteed our exposure is limited. However, where some of the investment is via warehouses, the increase in base rates increasing borrowing costs in combination with a revision to default stress expectations growing gradually and being longer lasting have impacted projected returns through these structures in the period and resulted in a fair value loss. Excluding movement in fair value these investments have otherwise increased, driven by the strong originations in the period, partially offset by repayments.

3. Core loans
   This relates to loans held following the closure of certain consolidated securitisation SPVs. The SBOLT 19-3 call option was exercised to wind up the structure in June 2022. As a result Funding Circle bought out the remaining bond tranches and retained some of the underlying loans. These loans are mature and amortise quickly with over £10 million of cash expected to be received during H2 2022. Legacy loans from the previously closed warehouses are also included within this category, along with other core loans temporarily funded through the Group's balance sheet with the intention of selling on.

4. Other
   There are a small amount of other loans, comprising seed investments in Private Funds held as associates which are in amortisation.

5. New products

This relates to the Group's FlexiPay lines of credit. The Group is funding the product from its own balance sheet until it reaches a certain level of maturity.

Cash flow

As at 30 June 2022, the Group held cash and cash equivalents of £200.7 million. Of this balance, £17.3 million (H1 2021: £33.9 million) was held and restricted for use. The remaining £183.4 million is unrestricted in its use. Cash has reduced by £23.3m from 31 December 2021, of which c.£16.0 million was utilised in calling the UK securitisation vehicle and repaying bonds, from which c.£10.0m of cash inflows from the retained loans are expected to flow back to the Group in H2 2022., and the remainder to follow in 2023.

Free cash flow, which is an alternative performance measure, 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 investment vehicle financing and funding cash flows together with new product (FlexiPay) lines of credit. The Directors view this as a key liquidity measure and is the net amount of cash used or generated to operate and develop the Group's platform each year.

Free cash flow has reduced from H1 2021 predominantly due to lower AEBITDA and large working capital movements associated with CBILS where £27 million of fees were received in H1 2021 relating to 2020 originations.

The table below shows how the Group's cash has been utilised:

	30 June 2022 £m	30 June 2021 £m
Adjusted EBITDA	**10.6**	53.3
Fair value adjustments	**(1.5)**	(8.1)
Purchase of tangible and intangible assets	**(6.6)**	(4.6)
Payment of lease liabilities	**(3.0)**	(3.8)
Working capital / other	**(1.4)**	29.0
Free cash flow	**(1.9)**	65.8
Net distributions from associates	**2.0**	1.4
Net movement in trusts and co-investments	**(1.7)**	(15.7)
Net originations of lines of credit	**(5.6)**	-
Net movement in PPP loans	**0.2**	3.5
Net movement in warehouses and securitisation vehicles	**(15.3)**	9.8
Purchase of own shares	**(4.6)**	-
Other	**(0.7)**	0.3
Effect of foreign exchange	**4.3**	(0.3)
Movement in the period	**(23.3)**	64.8
Cash and cash equivalents at the beginning of the period	**224.0**	103.3
Cash and cash equivalents at the end of the period	**200.7**	168.1

Principal risks and uncertainties

The Group's principal risks and uncertainties were disclosed on pages 55 to 63 of the Funding Circle Holdings plc 2021 Annual Report and Accounts after review and approval by the Board. The Group considers that the overall principal risks and uncertainties, risk appetite, key risks and management of risks remain unchanged for the six months ended 30 June 2022.

The principal risks include:

- Strategic risk, including the economic environment and environmental, social and governance risk;

- Funding and balance sheet risk;

- Credit risk, including borrower acquisition and portfolio management risk;

- Regulatory, reputation and conduct risk; and

- Operational risk, including process risk, information security, data risk, financial crime, technology risk and client money risk.

Statement of Directors’ Responsibilities

The Directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom’s Financial Conduct Authority, give a true and fair view of the assets, liabilities, financial position and profit and loss as required by DTR 4.2.4 and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

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

The maintenance and integrity of the Funding Circle Holdings plc website is the responsibility of the directors; the work carried out by the authors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that might have occurred to the interim financial statements since they were initially presented on the website.

The Directors of Funding Circle Holdings plc are listed in the Funding Circle Holdings plc Annual Report and Accounts for 31 December 2021. A list of current directors is maintained on the Funding Circle Holdings plc website: www.corporate.fundingcircle.com.

By order of the Board

Lisa Jacobs, Chief Executive Officer

8 September 2022

Oliver White, Chief Financial Officer

8 September 2022

Funding Circle

Condensed consolidated statement of comprehensive income

For the six months to 30 June 2022 (unaudited)

	Note	Unaudited 6 months to 30 June 2022 Before exceptional items £m	Exceptional items[1] £m	Total £m	Unaudited 6 months to 30 June 2021 Before exceptional items £m	Exceptional items[1] £m	Total £m
Transaction fees		**40.7**	**-**	**40.7**	70.5	-	70.5
Servicing fees		**24.2**	**-**	**24.2**	21.9	-	21.9
Other fees		**0.9**	**-**	**0.9**	2.1	-	2.1
Interest income[2]		**0.6**	**-**	**0.6**	-	-	-
Operating income		**66.4**	**-**	**66.4**	94.5	-	94.5
Investment income		**14.1**	**-**	**14.1**	33.5	-	33.5
Investment expense		**(3.2)**	**-**	**(3.2)**	(7.4)	-	(7.4)
Total income		**77.3**	**-**	**77.3**	120.6	-	120.6
Fair value gains		**1.5**	**-**	**1.5**	8.1	-	8.1
Net income		**78.8**	**-**	**78.8**	128.7	-	128.7
People costs		**(41.4)**	**-**	**(41.4)**	(39.4)	-	(39.4)
Marketing costs		**(17.3)**	**-**	**(17.3)**	(27.4)	-	(27.4)
Depreciation, amortisation and impairment		**(6.9)**	**-**	**(6.9)**	(8.3)	(3.9)	(12.2)
Loan repurchase credit/(charge)		**0.4**	**-**	**0.4**	(0.1)	-	(0.1)
Other costs		**(12.1)**	**-**	**(12.1)**	(14.1)	-	(14.1)
Operating expenses	5	**(77.3)**	**-**	**(77.3)**	(89.3)	(3.9)	(93.2)
Operating profit/(loss)		**1.5**	**-**	**1.5**	39.4	(3.9)	35.5
Finance income		**0.5**	**-**	**0.5**	0.1	-	0.1
Finance costs		**(0.5)**	**-**	**(0.5)**	(0.6)	-	(0.6)
Share of net profit of associates		**0.1**	**-**	**0.1**	0.4	-	0.4
Profit/(loss) before taxation		**1.6**	**-**	**1.6**	39.3	(3.9)	35.4
Income tax credit/(charge)	7	**5.5**	**-**	**5.5**	(2.0)	-	(2.0)
Profit/(loss) for the period		**7.1**	**-**	**7.1**	37.3	(3.9)	33.4
Other comprehensive income Items that may be reclassified subsequently to profit and loss:							
Exchange differences on translation of foreign operations		**5.5**	**-**	**5.5**	(0.4)	-	(0.4)
Total comprehensive profit/(loss) for the period		**12.6**	**-**	**12.6**	36.9	(3.9)	33.0
Total comprehensive profit/(loss) attributable to:							
Owners of the parent		**12.6**	**-**	**12.6**	36.9	(3.9)	33.0
Profit per share							
Basic profit per share	8	**2.0p**		**2.0p**	10.6p		9.5p
Diluted profit per share	8	**1.8p**		**1.8p**	9.8p		8.8p

[1] Exceptional items are detailed within note 6.
[2] Interest income recognised on assets held at amortised cost under the effective interest rate method.

Funding Circle

Condensed consolidated balance sheet

As at 30 June 2022 (unaudited)

	Note	Unaudited 30 June 2022 £m	31 December 2021[1] £m
Non-current assets			
Intangible assets	9	**27.1**	24.9
Property, plant and equipment	10	**13.2**	14.1
Investments in associates	11	**5.9**	7.6
Investment in trusts and co-investments	12	**34.5**	39.1
SME loans (other)	12	**38.0**	74.2
Deferred tax asset	7	**6.2**	-
Trade and other receivables	15	**4.0**	4.1
		128.9	164.0
Current assets			
SME loans (warehouse)	12	**2.0**	3.2
SME loans (securitised)	12	**88.0**	148.1
SME loans (other)	12	**1.3**	-
Lines of credit	12	**7.1**	1.6
Trade and other receivables	15	**18.2**	25.0
Cash and cash equivalents	17	**200.7**	224.0
		317.3	401.9
Total assets		**446.2**	565.9
Current liabilities			
Trade and other payables	15	**30.4**	36.4
Bonds	15	**55.4**	140.3
Short-term provisions and other liabilities	14	**1.6**	3.4
Lease liabilities	10	**7.2**	6.9
		94.6	187.0
Non-current liabilities			
Long-term provisions and other liabilities	14	**0.8**	0.7
Bank borrowings	13	**35.6**	73.2
Lease liabilities	10	**15.9**	17.0
Total liabilities		**146.9**	277.9
Equity			
Share capital		**0.4**	0.4
Share premium account		**293.1**	293.0
Foreign exchange reserve		**16.6**	11.1
Share options reserve		**21.5**	19.1
Accumulated losses		**(32.3)**	(35.6)
Total equity		**299.3**	288.0
Total equity and liabilities		**446.2**	565.9

1. The comparative period ended 31 December 2021 has been represented to present FlexiPay drawn lines of credit within 'lines of credit' which was previously presented within 'SME loans (other)'.

These condensed interim financial statements were approved by the Board on 08 September 2022. They were signed on behalf of the Board by:

Oliver White
Director

Condensed consolidated statement of changes in equity

For the six months to 30 June 2022 (unaudited)

	Note	Share capital £m	Share premium account £m	Foreign exchange reserve £m	Share options reserve £m	Accumulated losses £m	Total equity £m
Balance as at 1 January 2022		**0.4**	**293.0**	**11.1**	**19.1**	**(35.6)**	**288.0**
Profit for the period		-	-	-	-	7.1	7.1
Other comprehensive income:							
Exchange differences on translation of foreign operations		-	-	5.5	-	-	5.5
Transactions with owners							
Issue of share capital		-	0.1	-	-	-	0.1
Purchase of own shares held in employee benefit trust		-	-	-	-	(4.6)	(4.6)
Transfer of share option costs		-	-	-	(0.8)	0.8	-
Employee share schemes – value of employee services		-	-	-	3.2	-	3.2
Unaudited balance at 30 June 2022		**0.4**	**293.1**	**16.6**	**21.5**	**(32.3)**	**299.3**
Balance as at 1 January 2021		0.3	292.6	9.7	13.6	(98.6)	217.6
Profit for the period		-	-	-	-	33.4	33.4
Other comprehensive income:							
Exchange differences on translation of foreign operations		-	-	(0.4)	-	-	(0.4)
Transactions with owners							
Issue of share capital		-	0.3	-	-	-	0.3
Transfer of share option costs		-	-	-	(1.4)	1.4	-
Employee share schemes – value of employee services		-	-	-	3.2	-	3.2
Unaudited balance as at 30 June 2021		**0.3**	**292.9**	**9.3**	**15.4**	**(63.8)**	**254.1**

Condensed consolidated statement of cash flows

For the six months to 30 June 2022 (unaudited)

	Note	Unaudited 6 months to 30 June 2022 £m	Unaudited 6 months to 30 June 2021 £m
Net cash inflow from operating activities	16	**2.2**	74.1
Investing activities			
Purchase of intangible assets		**(6.0)**	(4.2)
Purchase of property, plant and equipment		**(0.6)**	(0.4)
Originations of SME loans (other)		**(2.1)**	(202.6)
Cash receipts from SME loans (other)		**43.8**	-
Cash receipts from SME loans (warehouse phase)		**1.5**	53.1
Proceeds from sale of SME loans (warehouse phase)		**-**	63.6
Proceeds from sale of SME loans (securitised)		**22.1**	-
Cash receipts from SME loans (securitised)		**56.9**	77.7
Investment in trusts and co-investments		**(5.7)**	(15.7)
Cash receipts from investments in trusts		**4.0**	-
Redemption in associates		**1.8**	1.4
Dividends from associates		**0.2**	-
Interest received		**0.5**	0.1
Net cash inflow/(outflow) from investing activities		**116.4**	(27.0)
Financing activities			
Proceeds from bank borrowings		**-**	206.1
Repayment of bank borrowings		**(42.8)**	(91.8)
Proceeds from issuance of bonds		**-**	-
Payment of bond liabilities		**(95.8)**	(92.8)
Proceeds from the exercise of share options		**-**	0.3
Proceeds from subleases		**0.6**	-
Purchase of own shares		**(4.6)**	-
Payment of lease liabilities		**(3.6)**	(3.8)
Net cash (outflow)/inflow from financing activities		**(146.2)**	18.0
Net (decrease)/increase in cash and cash equivalents		**(27.6)**	65.1
Cash and cash equivalents at the beginning of the period		**224.0**	103.3
Effect of foreign exchange rate changes		**4.3**	(0.3)
Cash and cash equivalents at the end of the period		**200.7**	168.1

Notes to the condensed interim financial statements
For the six months to 30 June 2022 (unaudited)

1. Basis of preparation

General information

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

These condensed interim financial statements have been prepared as at, and for the six months to, 30 June 2022. The comparative financial information presented has been prepared for the six months to 30 June 2021 and as at 31 December 2021.

The interim financial information presented as at, and for the six months to, 30 June 2022 comprise the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements of the Group as at, and for the year to, 31 December 2021 are available on request from the Company's registered office and via the Company's website.

Going concern

The Group made a total comprehensive profit of £12.6 million during the six months to 30 June 2022 (30 June 2021: £33.0 million). As at 30 June 2022 the Group had net assets of £299.3 million (31 December 2021: £288.0 million). This included cash and cash equivalents of £200.7 million (31 December 2021: £224.0 million) of which £17.3 million (31 December 2021: £24.6 million) is restricted. Additionally, within the net assets the Group holds £92 million (31 December 2021: £70 million) of invested capital, some of which is capable of being monetised if liquidity needs arise.

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

The Group has prepared detailed cash flow forecasts for the next 15 months and has updated the going concern assessment.

The base case scenario assumes:

- Continued growth in origination of the Group's core lending product until December 2023;
- No monetisation of committed capital through asset sales during the period albeit the assets continue to amortise down;
- No extensions or new government schemes that the Group participates in;
- The rollout of the new FlexiPay product using the Group's balance sheet to fund until it reaches a level of maturity; and
- Costs and headcount grow modestly with the new product and with increased investment in technology.

Management prepared a stress scenario in which:

- Macroeconomic volatility continues through the period with increased inflation and interest rates reducing originations;
- Investment returns reduce owing to increased funding costs, widening discount rates and deterioration in loan performance;
- An operational event occurring 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.

Even in the stress scenario, sufficient cash is forecast to be available to meet liabilities as they fall due without the requirement to take significant mitigating actions or restructuring. The Group does not currently rely on committed or uncommitted borrowing facilities with the exception of previous draw downs on the PPPLF to fund PPP loans, and does not have undrawn committed borrowing facilities available to the wider Group.

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

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

Basis of preparation

These condensed interim financial statements, which have been reviewed and not audited, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with UK adopted IAS 34, "Interim Financial Reporting". They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year to 31 December 2021 which 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.

The financial information included in these condensed interim financial statements does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 (the 'Act'). The statutory accounts for the year to 31 December 2021 have been reported on by the Company's auditors and were delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor's report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 of the Act.

Significant changes in the current reporting period

The financial position and performance of the Group was affected by the following events and transactions during the six months to 30 June 2022:

i) Sale of securitised SME loans and unwind of UK SPV

In May 2022, Funding Circle exercised the call rights associated with the majority ownership of the unrated junior residual tranches of Small Business Origination Loan Trust 2019-3's bonds. The call option became exercisable as the portfolio and bond liabilities of the SPV had amortised to below a minimum threshold. Funding Circle and the other junior note holders purchased the loans from the SPV, in line with their proportional ownership of the note tranches, at fair value. The proceeds, cash, and other assets of the vehicle were liquidated and used to repay outstanding expenses, and interest and principal on the bond liabilities. As the SPV is consolidated, the net impact on the Group's financial statements was a sale of 49% of the UK securitised SME loans and repayment of the remaining bond liabilities from the proceeds. The bond liabilities held at FVTPL were repaid at an amount higher than their previous fair value estimate as the cash flows were delivered sooner and at a higher amount resulting in a fair value loss as set out in note 15. The Group continues to own 51% of the securitised SME loans, now owned by the subsidiary Funding Circle Ltd as opposed to consolidated within the SPV. These loans continue to be held at fair value through profit and loss as the Group continues to hold these with the intention of selling them if and when an attractive price can be realised.

The Group continues to consolidate the UK SPV, which subsequently began a liquidation process, and holds an immaterial amount of cash and accruals, through exposure to the majority of the variability in any excess cash flows available after the liquidation is completed.

ii) Scaling up of new products

The Group has continued to invest in scaling up lending through originating lines of credit in its FlexiPay product.

Borrowers are provided with a facility which can be drawn to pay invoices and expenses, and are repaid over three months. A fee of 3% is charged on the drawn amount which is recognised over the three month life of the draw down in interest income under the effective interest rate method. The accounting policy regarding FlexiPay is outlined in note 2.

As outlined in note 2, the loans are measured at amortised cost. As new products will continue to become a larger part of the Group's business, this has been disclosed as a separate segment within note 4. As a result the Group has presented FlexiPay under 'lines of credit' in the statement of financial position and reclassified the comparative which was previously presented in 'investment in SME loans (other)'.

2. Changes in significant accounting policies

With the exception of the below, the accounting policies, methods of computation and presentation adopted in the preparation of the condensed interim financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year to 31 December 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

FlexiPay: Lines of credit

Lending through the FlexiPay product is recognised in the balance sheet within lines of credit. This represents the drawn amount of the facilities. The contractual cash flows represent solely payments of principal and interest ("SPPI") and the business model under which they are held is in order to collect the contractual cash flows resulting in the lines of credit being measured initially at fair value and subsequently at amortised cost.

The Group has presented FlexiPay under 'lines of credit' in the statement of financial position and reclassified the comparative which was previously presented in 'investment in SME loans (other)' where they were also measured at amortised cost.

The origination fee associated with FlexiPay is recognised under IFRS 9 within interest income at the effective interest rate in the consolidated statement of comprehensive income and is recognised over the contractual term of the draw down, being three months.

The FlexiPay lines of credit are held net of expected credit loss allowances under IFRS 9, the methodology and definitions of which align to the existing Group accounting policy on impairment of financial assets held at amortised cost and detailed further within note 15. Additionally, the Group assesses the expected credit loss allowance in relation to undrawn lines of credit, estimating the probability of default, loss given default and exposure at default in relation to these lines of credit were they to be drawn. This has resulted in a £0.1 million (December 2021: £nil) loss allowance recognised within other liabilities in note 14.

SME loans (securitised), SME loans (warehouse) and SME loans (other)

Following the call option being exercised on the UK securitisation vehicle and the repayment of the warehouse SPVs in 2021 and 2022, certain of the SME loans were purchased out of the vehicles and into Funding Circle Limited, a directly owned subsidiary of the Group. These loans continue to be measured initially at fair value and subsequently at FVTPL as the business model under which they are held remains to sell the loans. They continue to be presented within SME loans (securitised) and SME loans (warehouse) representing the legacy nature of the loans.

Certain SME loans are purchased or originated by the Group under the business model of selling onwards, and are therefore measured initially and subsequently under FVTPL. These loans are presented within SME loans (other) alongside loans held at amortised cost and can be distinguished in note 15.

3. Critical accounting estimates and judgments

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 2021.

Critical judgements

a) Consolidation and deconsolidation of special purpose vehicles ("SPVs")

As part of its asset-backed securitisation programmes, the Group has established 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, 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 proportional interest is reduced, the Group considers whether the vehicles should be deconsolidated.

b) 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 made in the process of applying the Group's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

a) Fair value of financial instruments (note 15)

At 30 June 2022, the carrying value of the Group's financial assets held at fair value was £249.0 million (31 December 2021: £302.5 million) and the carrying value of financial liabilities carried at fair value was £nil (31 December 2021: £12.8 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 2021 the assumptions related to estimating fair value have been revised to reflect the observed actual performance of SME loans, particularly SME loans (securitised), and a revision to the timing of the assumed defaults to occur later in light of the observed resilience of the loans performance and noting that the macroeconomic environment may lead to a later, more gradual but longer lasting stress than the sooner and sharper expected stress previously expected. Additionally, recoveries have been observed to have performed more favourable to previous stress assumptions and expectations have been revised upwards. The combination of favourable observed performance, higher recoveries and later defaults on an amortising pool of loans has led to a lower lifetime cumulative default expectation and a higher relative estimation of fair value compared to the carrying value of the loans.

However, market drivers of discount rates such as observed widening in collateralised loan obligation spreads and increases in the risk free rate due to central bank interest rate rises in order to curb inflationary pressures have resulted in the estimated cash flows being discounted at a higher rate which has led to a lower relative estimation of fair value compared to carrying value of the loans.

With respect to investments in trusts and co-investments, where the Group holds a small pari-passu co-investment structured through warehouse vehicles which are majority owned by the majority equity investor, the increase in interest rates has decreased the estimated fair value in these structures, as the floating rate interest paid on senior borrowing facilities within the vehicle is expected to decrease the returns to the equity holders compared to previous expectations. Additionally, while the majority of default stress particularly on CBILS loans was previously expected to occur at the end of the product's first year payment free period which had largely occurred by 30 June 2022, with lower defaults observed than anticipated, the macro-economic environment may lead to further defaults on these portfolios through the same more gradual default stress outlined above. The nature of the vehicles is such that, while the loans may be government guaranteed, an uptick in defaults in combination with higher borrowing costs will still reduce the lifetime return to the equity holder and the inbuilt mechanisms of the vehicles which prioritise protection of repayments to the senior lender could lead to cash flowing to the equity holder later and as a result the estimated fair value of the investment has decreased.

Sensitivities to assumptions in the valuation of, SME loans (warehouse), SME loans (other) and money market funds within cash and cash equivalents are not disclosed below as reasonably possible changes in the current assumptions would not be expected to result in material changes in the carrying values.

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

Description	Fair value (£m)	Unobservable input	Inputs	Relationship of unobservable inputs to fair value
SME loans – (securitised)	88.0	Lifetime cumulative default rate as % of original	US 18.23% and 17.71%[1] UK 6.12%[1]	A change in the lifetime cumulative default rate would have the following impact: US SPV1[1]: +66/-27 bps would decrease/increase fair value by £(1.0) million/ £0.3 million respectively. US SPV2[1]: +118/-49 bps would decrease/increase fair value by £(2.1) million/ £0.8 million respectively. UK: +67/-50 bps would decrease/increase fair value by £(0.7) million/ £0.8 million respectively.
Investments in Trusts and co-investments	34.5	Lifetime cumulative default rate as % of original	Blended: 16.0%	A change in the blended lifetime cumulative default rate by +300/-488 bps would decrease/increase fair value by £(1.6) million/ £1.6 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. US vehicle default definition is 'synthetic default' being 90+days past due based on original contractual terms including where borrowers became 90+ days late due to going on approved forbearance measures such as payment holidays. UK default definition is based on 'contractual default' definition of 90+ days past due based on current contractual terms which may have been revised since the original contract. The UK default definition was previously aligned to the US but amended after the loans were sold from the SPV, driving the divergence in lifetime expected default rates presented between the geographies.

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
SME loans – (securitised)	88.0	Risk-adjusted discount rate	US 12.9% UK 13.6%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £0.8 million.
Investments in Trusts and co-investments	34.5	Risk-adjusted discount rate	7.0% to 19.3%	A change in the discount rate by +/-100 bps would decrease/increase fair value by £0.6 million.

It is considered that the range of reasonably possible outcomes in relation to the discount rates used is presented above 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.

4. Segmental information

IFRS 8 Operating segments requires the Group to determine its operating segments based on information which is used internally for decision making. Based on the internal reporting information and management structures within the Group, it has been determined that there are four operating segments, three of which are geographic and the fourth which is new products. 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 four 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. In light of the increasing prominence of new products such as FlexiPay, an additional segment is reported to the CODM related to new products and has been disclosed separately for the first time for the period to 30 June 2022.

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 6). 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. The segment reporting, including Adjusted EBITDA, excludes the impact of the Group's transfer pricing arrangements as this is not information presented to, or used by, the CODM in decision making or the allocation of resources.

Net income/(loss)	**30 June 2022**					**30 June 2021**				
	United Kingdom	**United States**	**Developing Markets**	**New products**	**Total**	**United Kingdom**	**United States**	**Developing Markets**	**New products**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Total income	**61.9**	**14.2**	**0.8**	**0.4**	**77.3**	98.8	20.2	1.6	-	120.6
Fair value gains/(losses)	(4.0)	5.5	-	-	1.5	0.3	7.8	-	-	8.1
Net income/(loss)	**57.9**	**19.7**	**0.8**	**0.4**	**78.8**	99.1	28.0	1.6	-	128.7

Segment profit	**30 June 2022**					**30 June 2021**				
	United Kingdom	**United States**	**Developing Markets**	**New products**	**Total**	**United Kingdom**	**United States**	**Developing Markets**	**New products**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Adjusted EBITDA	**7.6**	**1.9**	**1.8**	**(0.7)**	**10.6**	41.0	11.8	0.5	-	53.3
Depreciation and amortisation	(5.3)	(1.6)	-	-	(6.9)	(5.6)	(2.7)	-	-	(8.3)
Share-based payments and social security costs	(1.9)	(0.4)	-	-	(2.3)	(4.2)	(0.6)	-	-	(4.8)
Foreign exchange gains/(losses)	0.1	-	-	-	0.1	-	(0.8)	-	-	(0.8)
Exceptional items	-	-	-	-	-	-	(3.9)	-	-	(3.9)
Operating profit/(loss)	**0.5**	**(0.1)**	**1.8**	**(0.7)**	**1.5**	31.2	3.8	0.5	-	35.5

5. Operating expenses

	30 June 2022			30 June 2021		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Depreciation, amortisation and impairment	6.9	-	6.9	8.3	3.9	12.2
Rental income and other recharges	(0.5)	-	(0.5)	(0.5)	-	(0.5)
Employment costs (including contractors)	41.4	-	41.4	39.4	-	39.4
Marketing costs (excluding employee costs)	17.3	-	17.3	27.4	-	27.4
Data and technology costs	4.9	-	4.9	4.4	-	4.4
Loan repurchase (credit)/charge	(0.4)	-	(0.4)	0.1	-	0.1
Other expenses	7.7	-	7.7	10.2	-	10.2
Total operating expenses	**77.3**	**-**	**77.3**	89.3	3.9	93.2

6. Exceptional items

The Group reflects its underlying financial results in the ‘before exceptional items’ column of the condensed consolidated statement of comprehensive income in order to provide a clear and consistent view of trading performance. There were no exceptional items recognised in the period to 30 June 2022.

In the prior period to 30 June 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 de-recognised 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 was 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.

7. Taxation

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The estimated average annual tax rate used for the six months to 30 June 2022 (excluding the tax charge on Research and Development Expenditure Credits (RDEC)) is (351.62%), compared to 5.30% for the six months to 30 June 2021. The major components of income tax expense in the condensed consolidated statement of comprehensive income are:

	30 June 2022 £m	30 June 2021 £m
Current tax		
Corporation taxation	0.7	2.0
Total current tax	0.7	2.0
Deferred tax		
Deferred taxation	(6.2)	-
Total deferred tax	(6.2)	-
Total tax (credit)/charge	**(5.5)**	2.0

The above tax credit includes the amount of tax deducted from the gross RDEC credit receivable for 2022 of £0.1 million.

The Group has unrelieved tax losses of £172.2m that are available for offset against future taxable profits. Based on the Group's financial projections and current transfer pricing arrangements, it has recognised a deferred tax asset in respect of a portion of these losses arising in the US of £6.2m in the period for use against expected future taxable profits.

8. Earnings per share

	30 June 2022 £m	30 June 2021 £m
Profit for the period	7.1	33.4
Basic weighted average number of ordinary shares in issue (million)	354.2	350.4
Basic profit per share	2.0p	9.5p
Profit for the year before exceptional items	7.1	37.3
Basic weighted average number of ordinary shares in issue (million)	354.2	350.4
Basic profit per share before exceptional items	2.0p	10.6p
Profit for the period	7.1	33.4
Diluted weighted average number of ordinary shares in issue (million)	387.3	381.0
Diluted profit per share	1.8p	8.8p
Profit for the year before exceptional items	7.1	37.3
Diluted weighted average number of ordinary shares in issue (million)	387.3	381.0
Diluted profit per share before exceptional items	1.8p	9.8p

9. Intangible assets

	Capitalised development costs	Computer software	Other intangibles	Total
	£m	£m	£m	£m
Net book value				
At 31 December 2021	24.6	0.3	-	24.9
At 30 June 2022	**26.9**	**0.2**	**-**	**27.1**

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

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

	30 June 2022	31 December 2021
	£m	£m
Property, plant and equipment (owned)	2.3	2.7
Right-of-use assets	10.9	11.4
	13.2	**14.1**

Lease liabilities – maturity analysis

	30 June 2022	31 December 2021
	£m	£m
No later than one year	7.2	6.9
Later than one year and no later than five years	15.9	17.0
Later than five years	-	-
Total	**23.1**	23.9

11. Interest in associates

The Group holds 23.6% of Funding Circle European SME Direct Lending Fund I and 8.3% of Funding Circle UK SME Direct Lending Fund I at 30 June 2022 (30 December 2021 and 30 June 2021: 23.6% and 8.3%) which are accounted as investments in associates.

The Group's share of profit from associates in the period was £0.1 million (30 June 2021: £0.4 million), the Group received capital distributions of £1.8 million (30 June 2021: £1.4 million), dividends of £0.2 million (30 June 2021: £nil) and the Group made additional investment of £nil into the funds (30 June 2021: £nil million).

12. SME loans

	30 June 2022 £m	31 December 2021 £m
Non-current		
SME loans (other) – amortised cost	38.0	74.2
Investment in trusts and co-investments– FVTPL	34.5	39.1
Total non-current	**72.5**	113.3
Current		
Lines of credit – amortised cost	7.1	1.6
SME loans (other) – FVTPL	1.3	-
SME loans (warehouse) – FVTPL	2.0	3.2
SME loans (securitised) – FVTPL	88.0	148.1
Total Current	**98.4**	152.9
Total	**170.9**	266.2

13. Borrowings

During 2022, in the US the Group has a drawn balance of $43.2 million (31 December 2021: $98.7 million) on the PPP Liquidity Facility available from the Federal Reserve Bank at a fixed interest rate of 0.35% to Fund PPP loans held on the Group's balance sheet. The PPPLF contractually matures in up to five years however is extinguished at the point the corresponding PPP loans are forgiven.

During 2021, the Group maintained revolving credit facility agreements of up to £220 million in the UK and $180 million and $175 million for the Group's US ABS programmes respectively. The facilities were drawn down in order to fund the purchase of SME loans for the warehouses.

During 2021, the loans in the US and UK warehouses were sold and the borrowing facilities fully paid down using the proceeds. Prior to repayment, interest was payable on the borrowings in the UK at 2.25% plus 1 month LIBOR and in the US were 2.5% plus the 3 month commercial paper rate on the first facility and at 3 month USD LIBOR + 2% on the second facility respectively.

14. Provisions and other liabilities

	Dilapidation	Loan repurchase	Restructuring[1]	Other[1]	Total
	£m	£m	£m	£m	£m
At 1 January 2021	0.9	5.2	1.1	2.7	9.9
Exchange differences	-	(0.3)	-	(0.1)	(0.4)
Additional provision/liability	-	0.1	-	1.2	1.3
Amount utilised	-	(1.9)	(0.6)	-	(2.5)
Amount reversed	-	-	(0.1)	(2.1)	(2.2)
At 30 June 2021	0.9	3.1	0.4	1.7	6.1
Exchange differences	-	-	(0.1)	0.3	0.2
Additional provision/liability	-	(0.1)	-	(0.1)	(0.2)
Amount utilised	-	(0.7)	(0.2)	(0.2)	(1.1)
Amount reversed	(0.3)	(0.1)	0.1	(0.6)	(0.9)
At 31 December 2021	0.6	2.2	0.2	1.1	4.1
Exchange differences	-	-	-	-	-
Additional provision/liability	0.2	-	-	0.4	0.6
Amount utilised	-	(0.7)	(0.2)	(0.3)	(1.2)
Amount reversed	-	(0.4)	-	(0.7)	(1.1)
At 30 June 2022	**0.8**	**1.1**	**-**	**0.5**	**2.4**

[1]Restructuring provision is in relation to the previously announced reorganisation of the US, German and Dutch businesses. Other provisions includes provisions for operational buybacks. £0.1 million (2021: £nil) of expected credit loss impairment allowance related to undrawn FlexiPay lines of credit is also included within other.

Current and non-current

	30 June 2022	31 December 2021
	£m	£m
Current	1.6	3.4
Non-current	0.8	0.7
Total	**2.4**	4.1

Loan repurchase liability

In certain historical circumstances, in Germany and the Netherlands, Funding Circle 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 fees.

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.

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 2021	2.2	1.5	1.5	5.2
Exchange differences	(0.1)	(0.1)	(0.1)	(0.3)
Liability against loans transferred between stages	(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
Exchange differences	-	-	-	-
Liability against loans transferred between stages	(0.1)	(0.1)	0.4	0.2
Amounts utilised	-	-	(0.7)	(0.7)
Loans repaid	(0.5)	(0.1)	(0.1)	(0.7)
Change in probability of default	(0.1)	-	0.2	0.1
At 30 June 2022	**0.7**	**0.2**	**0.2**	**1.1**

	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)
As at 31 December 2021				
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
As at 30 June 2022				
Performing (due in 30 days or less)	13.5	12 month ECL	6.0	0.7
Underperforming (31–90 days overdue)	62.2	Lifetime ECL	0.4	0.2
Non-performing (90+ days overdue)	92.9	Lifetime ECL	0.3	0.2
		Total	6.7	1.1

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

Macroeconomic scenarios are probability weighted within the model and include stress scenarios of: i) low losses, a high GDP, market confidence and political stability; ii) normal losses based on baseline economic conditions; iii) high losses with manufacturing and political instability; iv) very high losses reflecting Covid-19, and inflationary and supply chain stress scenarios with an acceleration of defaults gradually increasing in late 2022 and peaking in mid 2023 and gradually de-stressing over a longer period of time into 2025.

The stress scenario used was weighted towards a more severe recession with higher unemployment rates and high inflation amid supply chain issues and energy shortages coupled with higher base rates that may not immediately resolve inflationary problems. The default stress applied at 30 June 2022 results in a later more gradual increase in defaults but which normalise over a longer period compared to the shorter sharper assumptions utilised under the geo-weighted scenario applied at 31 December 2021. The result of which is a reduction in the level of expected defaults in light of the fast amortisation and reducing remaining weighted average life of the portfolio, and as a result the loan repurchase liability has decreased.

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 such as changes in interest rates, GDP and inflation in each market together with the impact on loan defaults. The most significant estimation is with default rates on performing loans. For the period ended 30 June 2022 the weighted average lifetime default rate is estimated at 18.9% (31 December 2021: 19.6%). If the weighted average default rate estimate were to change by +/-100bps the liability would change by £0.6 million for the period ended 30 June 2022 (31 December 2021: £1.4 million from +/-250bps). It is considered that the range of reasonably possible outcomes in annual default rates used might be +/-100bps 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 £6.7 million (31 December 2021: £10.0 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 30 June 2022, there is only one portfolio of loans.

15. Financial risk management

The Group's financial risks and risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year to 31 December 2021.

Financial risks arising from financial instruments are analysed into credit risk, liquidity risk, market risk (including currency risk, interest rate risk and other price risk) and foreign exchange risk. These condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. Details of how these risks are managed are discussed in the Funding Circle Holdings plc's financial statements for the year to 31 December 2021.

There has not been a significant change in the Group's financial risk management processes or policies since the year end, however as mentioned in note 3 the Group has revised the assumptions used in determining the level of defaults and recoveries in determining the fair value of loans.

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

- SME loans;
- lines of credit;
- trade and other receivables;
- cash and cash equivalents;
- trade and other payables;
- loan repurchase liabilities;
- bonds;
- bank borrowings; and
- lease liabilities

Categorisation of financial assets and financial liabilities

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

	30 June 2022				31 December 2021			
	Assets at fair value through profit and loss	**Amortised cost**	**Other**	**Total**	Assets at fair value through profit and loss	Amortised cost	Other	**Total**
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
SME loans (other)	1.3	38.0	-	39.3	-	74.2	-	74.2
SME loans (warehouse)	2.0	-	-	2.0	3.2	-	-	3.2
SME loans (securitised)	88.0	-	-	88.0	148.1	-	-	148.1
Lines of credit	-	7.1	-	7.1	-	1.6	-	1.6
Investment in trusts and co-investments	34.5	-	-	34.5	39.1	-	-	39.1
Trade and other receivables	-	17.5	-	17.5	-	24.3	-	24.3
Cash and cash equivalents	123.2	77.5	-	200.7	112.1	111.9	-	224.0
	249.0	**140.1**	**-**	**389.1**	302.5	212.0	-	514.5
Liabilities								
Trade and other payables	-	(14.6)	-	(14.6)	-	(15.2)	-	(15.2)
Loan repurchase liability	-	-	(1.1)	(1.1)	-	-	(2.2)	(2.2)
Bank borrowings	-	(35.6)	-	(35.6)	-	(73.2)	-	(73.2)
Bonds	-	(55.4)	-	(55.4)	(12.8)	(127.5)	-	(140.3)
Lease liabilities	-	(23.1)	-	(23.1)	-	(23.9)	-	(23.9)
	-	**(128.7)**	**(1.1)**	**(129.8)**	(12.8)	(239.8)	(2.2)	(254.8)

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, SME loans (other), lines of credit, 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:

The fair value hierarchy has the following levels:

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

The definitions, details of the inputs and the valuation techniques in determining the fair values of the Group’s financial instruments are shown in the Funding Circle Holdings plc financial statements for the year to 31 December 2021.

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

There have been no changes in the valuation techniques for any of the Group’s financial instruments held at fair value in each of the periods presented, however there have been revisions to the assumptions used within such valuations as detailed in note 3.

The fair value of financial instruments that are not traded in an active market (for example, 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.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements (year to 31 December 2021: none).

Fair value measurement using

	30 June 2022			31 December 2021		
	Quoted prices in active markets (level 1)	Significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Quoted prices in active markets (level 1)	Significant observable Inputs (level 2)	Significant unobservable inputs (level 3)
	£m	£m	£m	£m	£m	£m
Financial assets						
SME loans (warehouse)	-	-	2.0	-	-	3.2
SME loans (securitised)	-	-	88.0	-	-	148.1
SME loans (other)	-	-	1.3	-	-	-
Investment in trusts and co-investments	-	-	34.5	-	-	39.1
Cash and cash equivalents	123.2	-	-	112.1	-	-
	123.2	**-**	**125.8**	112.1	-	190.4
Financial liabilities						
Bonds	**-**	**-**	**-**	-	-	(12.8)
	-	**-**	**-**	-	-	(12.8)

The fair value of SME loans (warehouse) represents loans held in warehouse vehicles with the intention of selling on and loans which were purchased from warehouse vehicles and are now held by directly owned subsidiaries of the Group. The fair value 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 SME loans (warehouse) was £2.0 million at 30 June 2022 (31 December 2021: £3.2 million).

The fair value of 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. It also includes loans that have been purchased from the securitisation vehicles and are subsequently held by directly owned subsidiaries of the Group. The estimated fair value and carrying amount of the SME loans (securitised) was £88.0 million at 30 June 2022 (31 December 2021: £148.1 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 £nil at 30 June 2022 (31 December 2021: £12.8 million).

Investment in trusts and co-investments represent the Group's investment in the trusts and unconsolidated vehicles used to fund CBILS, RLS and commercial loans and is measured at fair value through profit and loss. The fair value has been estimated by discounting future cash flows in relation to the trusts 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 £34.5 million at 30 June 2022 (31 December 2021: £39.1 million).

The fair value of SME loans (other) represents loan assets temporarily funded by the Group in relation to the relaunch of commercial loans and is 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 SME loans (other) was £1.3 million at 30 June 2022 (31 December 2021: £nil).

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

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

	SME loans (warehouse) £m	SME loans (Securitised) £m	Bonds (unrated) £m	Investment in trusts and co-investments £m	SME loans (other) £m	Trade and other receivables £m
Balance as at 1 January 2021	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 (loss)/gain on the change in fair value of financial instruments at fair value through profit or loss	16.3	18.2	(5.0)	(0.9)	-	-
Foreign exchange (loss)/gain	(0.4)	0.3	-	-	-	-
Balance as at 31 December 2021	3.2	148.1	(12.8)	39.1	**-**	**-**
Additions	-	-	-	5.7	1.3	-
Repayments	(1.5)	(56.9)	16.3	(4.0)	-	-
Disposal	-	(22.1)	-	-	-	-
Net gain/(loss) on the change in fair value of financial instruments at fair value through profit or loss	0.3	11.2	(3.5)	(6.5)	-	-
Foreign exchange gain	-	7.7	-	0.2	-	-
Balance as at 30 June 2022	**2.0**	**88.0**	**-**	**34.5**	**1.3**	**-**

Financial risk factors

Credit risk

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

	30 June 2022 £m	31 December 2021 £m
Non-current		
SME loans (other)	38.0	74.2
Investment in trusts and co-investments	34.5	39.1
Trade and other receivables:		
Other receivables	4.0	4.1
Current		
SME loans (Other)	1.3	-
SME loans (warehouse)	2.0	3.2
SME loans (securitised)	88.0	148.1
Lines of credit	7.1	1.6
Trade and other receivables		
- Trade receivables	1.0	1.8
- Other receivables	5.1	10.0
- Accrued income	5.1	6.2
- Rent and other deposits	2.3	2.2
Cash and cash equivalent	200.7	224.0
Total gross credit risk exposure	**389.1**	514.5
Less bank borrowings and bond liabilities[1]	(91.0)	(213.5)
Total net credit risk exposure	**298.1**	301.0

1. Included within bank borrowings are $43.2m (31 December 2021: $98.7 million) in relation to draw downs on the PPPLF.

The Group is subject to financial guarantees it has issued to buy back loans detailed in the loan repurchase liability in note 14. The Group's maximum exposure to credit risk on this financial guarantee were every eligible loan required to be bought back would be £6.7 million (31 December 2021: £10.0 million).

An expected credit loss allowance related to undrawn lines of credit on the FlexiPay product of £0.1 million (31 December 2021: £nil) is held within provisions and other liabilities. The Group's maximum exposure to credit risk on the undrawn lines of credit if they were all to be fully drawn would be £16.0 million (31 December 2021: £4.2 million).

SME loans (warehouse) and SME loans (securitised) relate to the underlying pool of SME loans in securitisation vehicles or which are loans which are from the legacy warehouses and SPVs but have since been purchased or novated into other Funding Circle entities, but remain held at FVTPL with the business model of holding the loans for sale. Whilst there is credit risk from the loans defaulting, the US SME loans and the associated third party bonds are held within bankruptcy remote vehicles. If the SME loans were to all default, then the third party bondholders would not receive their money back. Therefore the overall exposure to the Group for these investments is the Group's net investment in the SME loans which is after taking account of the third party bonds.

SME loans (other) includes PPP loans of £35.1 million (31 December 2021: £71.6 million) funded by the use of the PPPLF. The loans are guaranteed by the US Government in the event of default and the loans are anticipated to be forgiven. At the point of default and subsequent collection of the guarantee or point of forgiveness, the loan and the respective borrowings under the PPPLF are extinguished.

SME loans (other) also includes loans which have been brought back from investors and are held at amortised cost. SME loans (other) includes £1.3 million (31 December 2021: £nil) loans originated by the Group with the intention of selling onwards, which are held at FVTPL and are therefore disclosed as current.

Lines of credit includes £7.1 million (2021: £1.6m) of drawn amounts through the FlexiPay product, enabling businesses to spread UK invoices or payments over three months with the initial payment made on a borrowers behalf.

The gross principal value of SME loans (other) and lines of credit held at amortised cost is £59.6 million (2021: £91.1 million) and an allowance for expected credit losses of £14.7 million (2021: £15.3 million) is held against these loans as detailed below.

An expected credit loss impairment credit of £0.6 million (June 2021: £0.9 million charge) was recognised through the statement of comprehensive income in the period to 30 June 2022 within other operating expenses in relation to the expected credit loss allowance.

	Performing: 12-month ECL	Underperforming: Lifetime ECL	Non-performing: Lifetime ECL	POCI Lifetime ECL	Total
	£m	£m	£m	£m	£m
At 1 January 2021	0.1	-	0.4	12.2	12.7
Impairment against additions	0.1	-	-	2.6	2.7
Exchange differences	-	-	-	(0.6)	(0.6)
Impairment against loans transferred from /(to) performing	-	0.3	0.7	-	1.0
Loans repaid	(0.1)	-	-	(0.9)	(1.0)
Change in probability of default or loss given default assumptions	0.5	-	-	-	0.5
At 31 December 2021	0.6	0.3	1.1	13.3	15.3
Impairment against additions	-	-	-	0.7	0.7
Exchange differences	-	-	-	0.7	0.7
Impairment against loans transferred from /(to) performing	-	0.1	(0.3)	-	(0.2)
Loans repaid	(0.1)	(0.3)	(0.3)	(0.7)	(1.4)
Change in probability of default or loss given default assumptions	-	-	(0.1)	(0.3)	(0.4)
At 30 June 2022	**0.5**	**0.1**	**0.4**	**13.7**	**14.7**

As at 31 December 2021	Expected credit loss coverage (%)	Basis for recognition of loan repurchase liability	Gross lines of credit and SME loans (other) (£m)	Provision for expected credit loss (£m)	Net carrying amount (£m)
Performing (due in 30 days or less)	0.7	12-month ECL	75.7	(0.6)	75.1
Underperforming (31–90 days overdue)	100.0	Lifetime ECL	0.3	(0.3)	-
Non-performing (90+ days overdue)	100.0	Lifetime ECL	1.1	(1.1)	-
POCI –Purchased or originated as credit impaired (90+ days overdue)	95.1	Lifetime ECL	14.0	(13.3)	0.7
		Total	91.1	(15.3)	75.8
As at 30 June 2022					
Performing (due in 30 days or less)	1.1	12 month ECL	43.9	(0.5)	43.4
Underperforming (31–90 days overdue)	20.6	Lifetime ECL	0.4	(0.1)	0.3
Non-performing (90+ days overdue)	70.8	Lifetime ECL	0.7	(0.4)	0.3
POCI –Purchased or originated as credit impaired (90+ days overdue)	93.3	Lifetime ECL	14.6	(13.7)	0.9
		Total	**59.6**	**(14.7)**	**44.9**

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

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

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

The credit risk on cash and cash equivalents is limited because the counterparties are banks with the majority holding credit ratings assigned by international credit rating agencies of A- or higher.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's position.

The Group's liquidity position is monitored and reviewed on an ongoing basis by the Directors. As the investments in loan securities held within the ABS warehouses are planned to be monetised within a short time horizon these are classified as current assets.

Interest rate risk

a) Interest rate risk sensitivity analysis – non trading interest (fixed rate)

Interest on SME loans and on the PPPLF borrowings is fixed until the maturity of the investment and is not impacted by market rate changes.

b) Interest rate risk sensitivity analysis – non trading interest (floating rate)

Interest on cash and cash equivalent balances is subject to movements in base rates. The Directors monitor interest rate risk and note that while interest rates have been at a historical low for some time there have recently been rate rises observed. The Directors believe that any reasonable increase in the base rate would not significantly impact the Group's cash or finance income.

Interest on bonds (in the UK) were subject to movements in the Sterling Overnight Index Average Rate ("SONIA"). However, the Group mitigated the risk of increases in interest rates through the use of interest rate caps and the bonds were fully repaid during the period to 30 June 2022.

Some of the Group's investment in trusts are through warehouse vehicles where the Group is a minority equity investor. The senior borrowing facilities utilised in these vehicles receive interest on borrowings in priority to payments to the equity investors at SONIA plus a margin. As a result of the increase in SONIA and anticipated future increases, the increased borrowing costs have reduced the expected cash returns to the equity investors of the investment held at fair value through profit and loss. The impact is recognised in fair value gains and losses in the statement of comprehensive income. Some, but not all of the vehicles, have interest rate caps within their structures which can mitigate the impact of future rate rises. Further increases in SONIA or the expected future increases in SONIA could reduce the fair value further. A 100bps increase in projected SONIA rates over the life of the trusts would reduce the fair value of the co-investments in trusts at 30 June 2022 by £0.7 million.

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ("IBORs") has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes.

As described in note 13, the Group was previously exposed to GBP and USD LIBOR on bank borrowings; however, with the repayment the exposure has since diminished. The Group has monitored the market and output from industry working groups and regulators which manage the transition to the new benchmark interest rates away from GBP LIBOR to SONIA and USD LIBOR to SOFR. In response to the transition the Group has identified all its LIBOR exposures and has executed its plan to smoothly transition to alternative benchmark rates. Given the Group's exposures related to bank borrowings, which have since repaid, the impact is limited and the Group relies on fall-back language within the contracts. Contracts have been amended where necessary to factor in the basis differential between LIBOR and SONIA and agreements have been updated as necessary.

The amendments to IFRS 9 will be applied until uncertainty arising from the benchmark interest rate reforms that the Group is exposed to ends. This uncertainty will remain until the Group's contracts that reference LIBOR are amended to reference the alternative benchmark which is complete for the UK and remains ongoing for the US, however, there are no remaining material exposures to USD LIBOR at 30 June 2022.

16. Cash inflow from operations

	30 June 2022 £m	30 June 2021 £m
Profit before taxation	1.6	35.4
Adjustments for:		
Depreciation of property, plant and equipment	2.5	3.4
Amortisation of intangible assets	4.4	4.9
Impairment of tangible assets (exceptional item)	-	3.9
Interest receivable	(0.5)	(0.1)
Interest payable	0.5	0.6
Non-cash employee benefits expense – share based payments and associated social security costs	2.5	4.4
Fair value adjustments	(1.5)	(8.1)
Movement in restructuring provision (exceptional item)	(0.2)	(0.7)
Movement in loan repurchase liability	(1.1)	(2.1)
Movement in other provisions	(0.4)	(1.0)
Share of gains of associates	(0.1)	(0.4)
Other non-cash movements	(0.6)	0.3
Changes in working capital:		
Movement in trade and other receivables	7.0	14.0
Movement in trade and other payables	(5.6)	19.6
Tax paid	(0.7)	-
Originations of lines of credit	(16.5)	-
Cash receipts from lines of credit	10.9	-
Net cash inflow from operating activities	**2.2**	74.1

Analysis of changes in liabilities from financing activities

	1 January 2021 £m	Cash flows £m	Exchange movements £m	Other non-cash movements £m	30 June 2021 £m
Bank borrowings	(195.5)	(114.3)	0.2	-	(309.6)
Bonds	(294.3)	92.8	1.4	(4.0)	(204.1)
Lease liabilities	(30.8)	3.8	0.1	(0.6)	(27.5)
Liabilities from financing activities	(520.6)	(17.7)	1.7	(4.6)	(541.2)

	1 January 2022 £m	Cash flows £m	Exchange movements £m	Other non-cash movements £m	30 June 2022 £m
Bank borrowings	(73.2)	42.8	(5.2)	-	(35.6)
Bonds	(140.3)	95.8	(6.8)	(4.1)	(55.4)
Lease liabilities	(23.9)	3.6	(1.6)	(1.2)	(23.1)
Liabilities from financing activities	**(237.4)**	**142.2**	**(13.6)**	**(5.3)**	**(114.1)**

17. Cash and cash equivalents

	30 June 2022 £m	31 December 2021 £m
Cash and cash equivalents	200.7	224.0

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

Included within cash and cash equivalents above is a total of £17.3 million (31 December 2021: £24.6 million) in cash which is restricted in use. Of this: i) £1.1 million (31 December 2021: £1.0 million) is held in the event of rental payment defaults; ii) £6.9 million (31 December 2021: £14.4 million) is held in the securitisation SPVs which has been collected for on-payment to bond holders and is therefore restricted in its use; iii) £9.3 million (31 December 2021: £9.2 million) is held within Funding Circle Focal Point Limited and Funding Circle Eclipse Limited and which is restricted in use to paying CBILS and RLS-related costs to the UK Government.

At 30 June 2022, cash equivalents relating to money market funds totalled £123.2 million (31 December 20201: £112.1 million).

18. Related party transactions

The basis of remuneration of key management personnel remains consistent with that disclosed in the 2021 Annual Report and Accounts.

19. Contingent liabilities and commitments

In common with other businesses, the Group is involved from time to time in disputes in the ordinary course of business. These disputes can include counter claims made by defaulted borrowers, against whom Funding Circle has filed a claim for the recovery of monies owed under a loan agreement. There are no active cases expected to have a material adverse financial impact on the Group's consolidated results or net assets.

The Group has commitments related to issued lines of credit related to the FlexiPay product. At 30 June 2022 there were undrawn commitments of £16.0 million (31 December 2021: £4.2 million). An expected credit loss impairment allowance is held within other provisions by the Group of £0.1 million (31 December 2021: £nil) in relation to the estimated credit losses the Group may be exposed to on these undrawn lines of credit.

20. Subsequent events

In July 2022 an agreement was signed by Funding Circle European Private Fund DAC I to sell the loans held by the fund as part of its strategy to return capital to shareholders in a cost effective manner. The Group received c.£2.6 million in cash in August 2022 as a final capital distribution and the corresponding investment in associate held by the Group was reduced by this distribution to nil. There was no impact on the statement of comprehensive income from the transaction.

Glossary

Alternative performance measures

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

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition
Income statement			
Adjusted EBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Refer to Finance Review.	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.
Investment AEBITDA and Operating AEBITDA	EBITDA, while not defined under IFRS, is a widely accepted profit measure	Refer to Finance Review.	Investment AEBITDA is defined as investment income, investment expense and fair value adjustments and operating AEBITDA represents AEBITDA excluding investment AEBITDA.
Net investment income	Net income	Refer to performance highlights	Net investment income, represents investment income less investment expense.
Exceptional items	None.	Refer to note 6.	Items which the Group excludes from Adjusted EBITDA in order to present a measure of the Group's performance. Each item is considered to be significant in nature or size and is treated consistently between periods. Excluding these items from profit metrics provides the reader with additional performance information on the business across the business as it is consistent with how information is reported to the Board and GLT.
Cash flow			
Free cash flow	Cash generated from operating activities.	Refer to Finance Review.	Net cash flows from operating activities plus 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 along with movements in FlexiPay lines of credit.

Independent review report to Funding Circle Holdings plc
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Funding Circle Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the Half Year 2022 Results of Funding Circle Holdings plc for the 6 month period ended 30 June 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 June 2022;
- the Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Half Year 2022 Results of Funding Circle Holdings plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

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

We have read the other information contained in the Half Year 2022 Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Half Year 2022 Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Half Year 2022 Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Half Year 2022 Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Half Year 2022 Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
8 September 2022